THE DYNAMICS OF HOUSING REHABILITATION

Errata

P. 32, par. 2, ln. 1	(in condemnation) to (to facilitate rehabilitation)
P. 36, par. 2, ln. 7	omit therefore
P. 40, exhibit 2-5, category headings	Note: Numbers 1 to 7 refer to project numbers. Change 7^5 to 7
P. 64, fn. 3	1969 to 1979
P. 70, par. 1, ln. 3	Research to Review
P. 134, par. 4, ln. 8	10 percent to 10 percent more
P. 191, par. 4, ln. 3	sold 20 months to sold within the first 20 months.

The Dynamics of Housing Rehabilitation

Macro and Micro Analyses

ABOUT THE AUTHOR

David Listokin is a Research Associate at the Center for Urban Policy Research. He received a B.A. from Brooklyn College and attended New York University and Bernard Baruch College prior to receiving his M.C.R.P. from Rutgers University. He is currently a candidate for the M.P.A. at Bernard Baruch College and a doctoral student in Urban Planning at Rutgers. He is the author of Funding Education: Problems, Patterns, Solutions.

ABOUT THE CENTER

The Center for Urban Policy Research, a part of Rutgers University, The State University of New Jersey, was founded initially as the Urban Studies Center in 1961 and now is located on the campus of Livingston College. The Staff of the Center included representatives of many disciplines, such as planning, sociology, psychology, computer programming, municipal finance, and economics. It is active in research on a municipal, state, and federal level, particularly in housing, economic development and organizational dynamics. The range of recent work includes the drafting of federal housing legislation, analysis of welfare recipients, studies of rural poverty, regression analysis of building costs and the construction of a statewide job-residence model.

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CENTER FOR URBAN POLICY RESEARCH
RUTGERS UNIVERSITY
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Preface

The entire field of urban regeneration is one marked by controversy. The future of welfare, of job training, of new housing versus rehabilitation of extent units, of private home ownership versus institutional management, even of the city as an entity all too frequently are cloaked in statements reflecting a narrowness and parochiality of interests. Certainly, one sphere that has received much attention, if little clarification, is the role of housing unit rehabilitation in the older city. It is to this area that the work which follows is addressed.

In the twenty-five years since the initial series of Post World War II Housing Acts and certainly going back in time perhaps even before that, there have been recurrent waves both of popularity and of deprecation extended to rehabilitation. In part this has reflected the variations in new construction costs, the latter typically being viewed as the chief alternative to the rehabilitation of older units. It is also, however, a reflection of the difficulties of securing rehabilitation on a large scale.

New housing construction lends itself much more readily to the administrative mechanisms: accounting is realitively simple, the measurements of through-put easily attainable. Rehabilitation is much more complex. The very term embodies a wide assortment of efforts running the gamut from basic paint-up/clean-up/fix-up campaigns on the one hand, to total gut demolition and essentially the insertion of a new housing unit within a bare shell on the other. And each of the way stations along this spectrum has its own collection of advocates and critics.

The problems of administering a program in which one starts with a variable base, i.e. a collection of housing units which may show the wear and tear of the years in entirely disparate fashions, and for which the ultimate goal (i.e. the level of rehabilitation to which these units are to be brought) is far from certain, needs little elaboration. In many communities efforts at large scale rehabilitation have been stymied because of these administrative problems but also in part because of lack of basic skills. And certainly, this latter imput should not be minimized.

New construction, in some ways is much simpler, from the craftsman's point of view, than is the case in rehabilitation. The latter case involves fitting to an extant structure - and this may be far from true, the insertion of new window frames in an old house requires much more in the way of skill than does its equivalent as part of the overall process of new construction.

Similarly, new construction, at least in theory, yields much more easily to capital intensification - to factory built housing or at least modules - than does rehabilitation. In the latter

case, efforts at providing the imputs of new technology have with few exceptions been lamentable failures. The instant rehabilitation conducted in New York City and described so very well by the American Institute of Public Administration may have had its laughable aspects, as the pre-built factory modules, lowered by special crane into the old law tenements that had been gutted to receive them, simply didn't stack in the same way as the old shells leaned. They were a tragedy, however, for the needy home seeker and for a city desparately and honestly trying to secure some measure of amelioration from the problems of a housing stock whose age and condition has become oppressive.

Housing rehabilitation is not unique in being forced to pass through a filter of competing demands for ancillary activity, when conducted in the central city. It shares with new construction the dilemma of goals, of whether their primary purpose is to provide jobs for local individuals, patronage for local leaders, or the scene and locus of a variety of social experimenters and the like. Certainly, however, all of these requirements lead to some limitation of through-put.

At this writing we are at a turning point in central city housing rehabilitation efforts. The scandals attendant to the F.H.A. backed home acquisition programs in older cities using the 221d2 and 235j programs dominate the housing news. Operation Rehab, a government financed effort to generate a large scale rehabilitation industry is just beginning to show significant progress. It is certainly time to take stock of the track record before moving once again into new policies.

It is not only the physical forms of housing - new or rehabilitated - which have generated controversy in this sphere, it is also the forms of tenure. For this reason, we have paid special attention to some of the programs which have involved home ownership, both some of the failures in this approach and also some of the outstanding successes, with particular emphasis on the Camden Housing Improvement Program in New Jersey, which may well serve as a model for the future. Because there will be a future for rehabilitation, it is essential. The costs of new construction (see Zoning and Housing Costs, CUPR, 1973) and the difficulties of providing it in the central cities particularly are overwhelming. More attention to the extant stock, which is more than 30 times as large as the amount of new housing provided in any one year, even our most successful, has long been overdue. This work is offered as a modest step in that long - but essential road.

It is to this goal that the work represented here is dedicated. We have attempted to provide a tool useful for the harried public official or the concerned citizen as well as the housing expert designing specific programs and seeking to grasp a most elusive subject.

George Sternlieb, Director
Center for Urban Policy Research
Rutgers University

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INTRODUCTION

In 1961, former President Kennedy exhorted Congress that "we must move with new vigor to conserve and rehabilitate existing residential districts."[1] And in that same year, Congress enacted a number of housing programs to facilitate rehabilitation. (For a description of the governmental rehabilitation programs that were enacted in 1961 and other years, see Exhibit 1-4). In 1967, former President Lyndon Johnson similarly stated that rehabilitation was a critical housing strategy - the 'key to many of our successful urban renewal programs"[2] and he proposed a number of programs to facilitate rehabilitation, many of which were eventually enacted in 1968. To date, however, despite the scores of governmental programs to encourage rehabilitation, the record of this housing strategy has been extremely disappointing.

UNSUCCESSFUL REHABILITATION EFFORTS

In 1966, Carter McFarland, currently head of Project Rehabilitation, a HUD effort to expedite rehabilitation, noted that "the solid successes in rehabilitation have been few and far between."[3] In 1968, a gathering of housing experts in Boston concluded that the rehabilitation of housing in slum areas "is almost a complete and costly failure."[4]

In that city, many of the 2,074 units of the Boston Rehabilitation Program (BURP) have been or are in the process of being foreclosed and a number of units have been abandoned and vandalized. Numerous houses rehabilitated in Camden by the Interfaith Council of Clergy are today abandoned and vandalized. And similar scenarios of abandoned, rehabilitated housing can be seen in Detroit and other urban areas.[5]

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[1]Message from the President of the United States relative to our nation's housing, 87th Congress 1st session, House of Representatives, Document No. 102, March 9, 1961, p. 6.

[2]Lyndon Johnson, "America's Unfinished Business: Urban and Rural Poverty," Message to Congress, March 14, 1967.

[3]M. Carter McFarland, Residential Rehabilitation Essays in Urban Land Economics, (Los Angeles, Real Estate Research Program, University of California, 1966) p. 109.

[4]Boston Globe, December 18, 1968

[5]"Major Scandals Rock HUD's Big Subsidized Housing Programs for the Nation's Poor," House and Home February 1972, p. 12.

Objective of this Study

Although the literature on rehabilitation is bountiful, (See Bibliography), many rehabilitation studies have focused only on the problems of one particular rehabilitation effort, bypassing any attempt to establish the broad problem areas faced by many rehabilitation sponsors. Some studies, on the other hand, have been so general as to be of little use for public policy makers. Very few of the existing studies have addressed themselves to the question, in a manner that would benefit public policy makers, to why despite a host of governmental programs to facilitate rehabilitation this housing strategy has often failed.

This study is divided into two sections-a macro analysis and a micro analysis of urban rehabilitation. The first section, comprising chapters one through six, reviews the restraints to rehabilitation and considers various policies that may facilitate this housing strategy. Although it mentions individual rehabilitation efforts, its stress is on the collective experiences of many rehabilitation programs.

Chapter One examines what is meant by rehabilitation and explores the promise and performance of this housing strategy. The next two chapters examine the restraints to rehabilitation; Chapter Two explores the major restraints - financing, acquiring properties, problems involving management and maintenance - and Chapter Three analyzes such lesser restraints as attracting contractors and obtaining insurance.

Chapters Four through Six consider the various strategies that have been proposed to force, encourage or facilitate rehabilitation. Chapter Four considers two "stick" strategies for forcing rehabilitation - an intensive housing code enforcement program and a receivership program. Chapter Five evaluates a "carrot" policy for encouraging rehabilitation by offering tax benefits to investors in rehabilitation and by improving both the financing and the technology of rehabilitation.

Chapter Six focusing on facilitating rehabilitation examines methods of acquiring properties; managing, maintaining and insuring these properties; and explores ways to reduce neighborhood opposition to rehabilitation sponsors.

The micro analysis section consisting of chapters seven through eleven focuses on the experiences of an extremely successful rehabilitation program: the Camden Housing Improvement Projects (CHIP). It explores whether the success of CHIP could be duplicated by other sponsors. (The contents of chapters seven through eleven are summarized in the introduction to Section Two).

SECTION ONE

HOUSING REHABILITATION: MACRO ANALYSIS

Chapter I

REHABILITATION: DEFINITION AND PROMISE AND PERFORMANCE

Before we can discuss why rehabilitation has often failed and what can be done to make it more successful, we must spell out what is meant by rehabilitation and examine the record of this strategy in attaining its stated objectives.

REHABILITATION: DEFINITION

Confusion has often resulted because the term rehabilitation has tended to be used interchangeably with redevelopment. Actually the two terms are entirely different.[1]

There have been many definitions of rehabilitation. H.N. Osgood and A.H. Zwerner have defined it as the elimination of environmental and structural deficiencies which if, not adequately and timely corrected would result in neighborhood blight.[2] J. Michael Warren sees it simply as the renewal and modernization of existing buildings.[3] Other definitions have viewed it as making a run down uninhabitable building habitable:[4] the extensive rebuilding of a property to remove decayed or worn-out parts, complete installation of modern mechanical services and floor plans and rebuilding within the shell;[5] and residential rebuilding to

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[1]See Jerome Weinstein, Study Materials on Rehabilitation prepared for the rehabilitation seminar sponsored by the New Jersey Department of Community Affairs and the New Jersey Chapter of the National Association of Housing and Redevelopment Officials, Ramada Inn, New Brunswick, N.J., May 25, 1972

[2]H.N. Osgood and A.H. Zwerner, "Rehabilitation and Conservation," Law and Contemporary Problems, Vol. 25, No. 4, Autumn 1960, p. 706. Osgood and Zwerner were defining urban revewal rehabilitation.

[3]J. Michael Warren "Conservation and Rehabilitation: An Idea Approaches Adolescence," Michigan University Law Review, Vol. 63, No. 5, March 1965. p. 893.

[4]William Hendy, "Good Business in Rehab" Journal of Homebuilding, Vol. 25, No. 12, December 1970, p. 64.

[5]Weinstein, Study Materials p. 6.

present obsolescence or diminishing utility and to restore safe, sound and sanitary standards.[6]

Redevelopment, which involves demolition and new construction, is generally effected in those areas of extensive blight in which rehabilitation is deemed inadequate to stem neighborhood decay.[7]

LEVELS OF REHABILITATION

Many different levels of rehabilitation have been delineated. The New York State Temporary State Housing Rent Commission differentiates four levels-code compliance, minimal rehabilitation, modernization and remodeling.[8] Others have differentiated among minimal, moderate and extensive rehabilitation.[9] There has also been a wide range in the

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[6]John H. Haas, 3 R's of Housing - A Guide to Housing Rehabilitation Relocation Housing, Refinancing, (Washington, D.C. 1962), pp. 27-29.

[7]Warren "Conservation and Rehabilitation" p. 893.

[8]These are defined as follows: Code Compliance - such work as is necessary to restore the structure to safe and sanitary maintenance and repair. In general, this means the building would be in compliance with all building, housing, fire, and sanitary codes of the City, and the landlord would be providing all customary services in accordance with rent control requirements. Minimal Rehabilitation - in addition to all work called for under code compliance, modest measures to upgrade the housing would include improvement in the outside appearance of the building and an increase in electrical capacity within the apartments. Modernization - in addition to the work of minimal rehabilitation, outmoded mechanical equipment and fixtures would be replaced and all public areas of the building would be redecorated. No change in floor plans is included. Remodeling - floor layouts would be functionally rearranged to produce a larger number of separate apartments than presently exist. Outmoded mechanical equipment would be replaced and the interior and exterior of the building would also be cleaned and painted as with modernization. See New York State Temporary State Housing Rent Commission Prospects for Rehabilitation (New York: 1960,) Chapter 4.

[9]These are defined as follows: Minimal rehabilitation - elimination of code violations and/or minor repairs, improving the facade of the building, and other cosmetic treatment. Moderate rehabilitation - all of the above work plus minor changes in the layout, general interior and exterior repairs, modernization of heating, plumbing and electrical systems, and replacement of outmoded fixtures. Extensive rehabilitation - complete remodeling or redesigning of layouts (including gutting and installation of elevators in some cases), major interior and exterior repairs, installation of new heating, plumbing and electrical systems, and replacement of outmoded fixtures. See Frank Kristof, A Large Scale Rehabilitation Program For New York City, (New York: Housing and Redevelopment Administration Bureau and Program Research 1967).

costs of rehabilitation resulting from regional construction cost differences and other factors (See Exhibit 1-1). For purposes of our study, we shall define rehabilitation as the upgrading of a property ranging from the elimination of code violations to the complete remodeling or redesigning of floor layouts, and the replacement of major mechanical and structural components. Our definition is intentionally broad in order to encompass the wide range of rehabilitation levels attempted in the efforts studied.

REHABILITATION: AN HISTORICAL OVERVIEW

Rehabilitation has long been espoused as a housing strategy offering significant benefits as compared to either demolishing slum structures or constructing new housing. A 1938 Harvard Study by Mabel Walker[10] promoted rehabilitation as a crucial strategy to eliminate slums because it was both quicker and cheaper than demolition and new construction. In 1953, the President's Committee on Government Housing Policies and Programs recommended that while federally aided demolition and new construction programs were appropriate in neighborhoods that were beyond recall, "federally aided rehabilitation programs would be more appropriate in neighborhoods that weren't badly blighted."[11]

In the 1960s the growing advocacy for rehabilitating properties in slum areas resulted largely from disenchantment with the federal urban renewal program. The latter, established by the 1949 Housing Act, had the goal of eliminating substandard housing. Until 1954, local public agencies participating in the urban renewal program received federal financial assistance[12] only for those urban renewal projects that involved

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[10]Mabel Walker, Harvard City Planning Studies (Cambridge, Harvard University Press, 1938). For a discussion of the Mabel Study see William Nash, Residential Rehabilitation: Private Profits and Public Purposes (New York: 1959), pp. 223-224.

[11]U.S. President's Advisory Committee on Government Housing Policies and Programs (Washington, D.C.: Government Printing Office, 1953), p. 109.

[12]Three types of financial assistance were authorized: (1) advances --to enable local public agencies to prepare project surveys and plans; (2) loans--to finance the local public agency's costs of project planning, assembly clearance and preparation of project land for disposition for uses in accordance with the approved redevelopment plan; and (3) capital grants--payable to local public agencies to help finance the difference between (a) the cost of project undertakings and (b) the proceeds from disposition of project land. See Osgood and Zwerner, "Rehabilitation and Conservation," pp. 707-708.

Exhibit 1-1

TYPICAL REHABILITATION COSTS, FHA 220, 221(d)(3) BMIR, RENT SUPPLEMENT 221(h) PROGRAMS[1]

	Total development cost	Land and building	Rehabilitation	Other[2]
Boston, Mass.:				
Walk-up	$11,603	$4,142	$5,818	$1,643
Row	12,417	1,300	9,238	1,879
Chicago, Ill., walk-up	11,256	3,340	6,878	1,038
Cleveland, Ohio:				
Elevator	11,702	4,788	6,084	830
Walk-up	10,413	1,458	8,124	831
Detroit, Mich.:				
Elevator	10,141	3,358	5,603	1,180
Walk-up	11,675	4,096	6,263	1,316
Hartford, Conn.:				
Highrise	14,389	3,408	10,414	567
Walk-up	13,254	6,547	5,055	1,652
New York City:				
Elevator	16,484	2,495	12,297	1,692
Walk-up	12,840	2,880	8,201	1,759
Row	19,835	4,650	13,636	1,549
Omaha, Nebr.:				
Walk-up	6,487	1,280	4,173	1,034
Single-family	10,637	3,894	5,746	997
Philadelphia, Pa., elevator	16,241	2,850	12,106	1,285
Pittsburgh, Pa., row	11,953	2,842	7,892	1,219
St. Louis, Mo., walk-up	8,582	1,820	5,800	962

[1]For description of programs see Exhibit 1-4.

[2]Legal and organization, financing, carrying charges, taxes, etc.

Source: The President's Committee on Urban Housing, A Decent Home, (Washington D.C.: Government Printing Office, 1969) p. 101.

redevelopment--demolishing blighted structures and constructing new housing. Although the 1954 Housing Act expanded the urban renewal program to include rehabilitation,[13] only negligible rehabilitation[14] was actually effected in the decade following the program expansion.

By the early 1960s, the strategy of demolition and new construction which characterized most urban renewal projects was criticized by many urbanologist for making it more difficult for low-income groups to obtain housing and for having undesirable racial overtones.[15] Rehabilitation was now being hailed as the optimal policy for revitalizing inner city neighborhoods. The federal government enacted numerous programs to encourage rehabilitation in the 1960s. The 1961 Housing Act established the 203k-220h programs which insured loans made by private lenders to property owners who made major improvements. The 1964 and 1965 Housing Acts established the 312 and 115 programs which made available to property owners in urban renewal and other areas long-term, low-interest loans for rehabilitation. The 1968 Housing Act also established a number of low-interest long-term mortgage programs. (See Exhibit 1-4).

REHABILITATION: PROMISE

To the proponents of rehabilitation its virtues were almost boundless. Because it would either obviate relocation or entail only temporary relocation, rehabilitation would minimize family and community displacement and would thereby reduce the neighborhood opposition that often arose when urban renewal was planned.[16] Rehabilitation was also viewed as a strategy that could disperse low-income housing units throughout

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[13]For an excellent discussion of the changes in the federal urban renewal program see M. Carter McFarland, "Residential Rehabilitation: An Overview" in M. Carter McFarland and Walker K. Vivret Residential Rehabilitation (School of Architecture, University of Minnesota: 1966).

[14]As of December 31, 1959, only 6027 homes were rehabilitated under the federal urban renewal program, and 4,662 homes were in the process of being rehabiltated. See Martin Anderson, The Federal Bulldozer: A Critical Analysis of Urban Renewal 1949-1962 (Cambridge:1964), p. 148.

[15]Martin Anderson, The Federal Bulldozer, Herbert Gans, The Urban Villagers (Glencoe: 1962), Jane Jacobs, The Death and Life of Great American Cities (New York: 1961).

[16]David Gergen, "Renewal in the Ghetto A Study of Residential Rehabilitation in Boston's Washington Park" Harvard Civil Rights--Civil Liberties Law Review Vol. 3, No. 2, Spring 1968, p. 245.

a number of neighborhoods, rather than concentrating such units in a single area.[17] Rehabilitation, regarded as easier, quicker and cheaper than clearance and new construction,[18] was also considered particularly well suited for training inner city residents in construction skills. Furthermore, from the perspective of the municipality, there was no hiatus during which property taxes were not paid as there had been in urban renewal.

REHABILITATION: PERFORMANCE

In practice, however, many of the anticipated benefits of rehabilitation have not been realized. For example, rehabilitation has often caused relocation problems except for cosmetic rehabilitation, most improvements can be effected only after the original tenants or homeowners have moved to other quarters.

Rental increases after rehabilitation has been completed have also caused problems of relocation. A study of the Rapid Rehabilitation Demonstration Program (RRDP) in New York City concluded that these projects resulted in rent increases[19] that forced many of the original tenants to move. And this situation was not atypical. Of the 40 municipalities with urban renewal rehabilitation programs that responded to a questionnaire sent by the Michigan University Law Review, almost half replied that many of the original residents in the neighborhoods where rehabilitation was effected were forced to move.[20]

As a consequence of causing relocation problems, rehabilitation efforts have often been opposed by residents in the rehabilitation neighborhood.

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[17]Department of Housing and Urban Development, "Housing for Low-Income Families,: (Washington D.C., Government Printing Office, 1967). p. 7.

[18]Victor DeGrazia, "Rehabilitation is Not Working as a Resource for Community Development" Journal of Housing No. 11, December, 1967, p. 623.

[19]Institute of Public Administration, Rapid Rehabilitation of Old Law Tenements: An Evaluation (New York: 1968), p. 63. See also Richard Bolan, "Rehabilitating New York's Old Law Tenements," Joint Center for Urban Studies of M.I.T. and Harvard University, 1967 draft (mimeo).

[20]Warren, "Conservation and Rehabilitation"

The sponsors of BURP, for example, were accused by local groups in the rehabilitation neighborhood, Roxbury, of throwing tenants out in the street in the middle of the winter.[21]

Furthermore, the rehabilitation of units with antiquated floor plans and inherent structural deficiencies has frequently not succeeded in transforming such properties into desirable places to live. In the RRDP, even after an expenditure of $26,400 per unit, the rehabilitated old-law tenements still had serious deficiencies such as a lack of light, air, privacy and acoustical control.[22]

Cost Savings

Rehabilitation has often been cheaper and quicker than new construction. Rehabilitation construction costs in the South End Community Development Inc. (SECD), a rehabilitation effort in Boston, ranged from $48,000 to $165,000 per project.[23] In contrast the FHA estimated that new construction of the same units would cost from $51,000 to $199,000 per project. Except for the first project, rehabilitation construction costs in the SECD were considerably lower than the estimated new construction costs. (See Exhibit 1-2) In Chicago, housing units rehabilitated by the Kate Maremount Foundation cost $10,000 per unit as compared to an estimated $15,000 construction cost for a comparable new unit.[24]

A report by McGraw Hill that was done for the President's Committee on Urban Housing (Kaiser Commission) calculated that in a city in the Boston-Washington corridor the development and construction cost of a new three-bedroom unit was $20,000 as compared to a $13,090 project cost for a rehabilitated unit of the same size.[25] For fiscal year 1971, HUD

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[21]Langley C. Keyes Jr., The Boston Rehabilitation Program: An Independent Analysis, (Cambridge, Joint Center for Urban Studies of M.I.T. and Harvard University, 1970,) pp. 50-55.

[22]Institute of Public Administration, Rapid Rehabilitation, pp. 3-4.

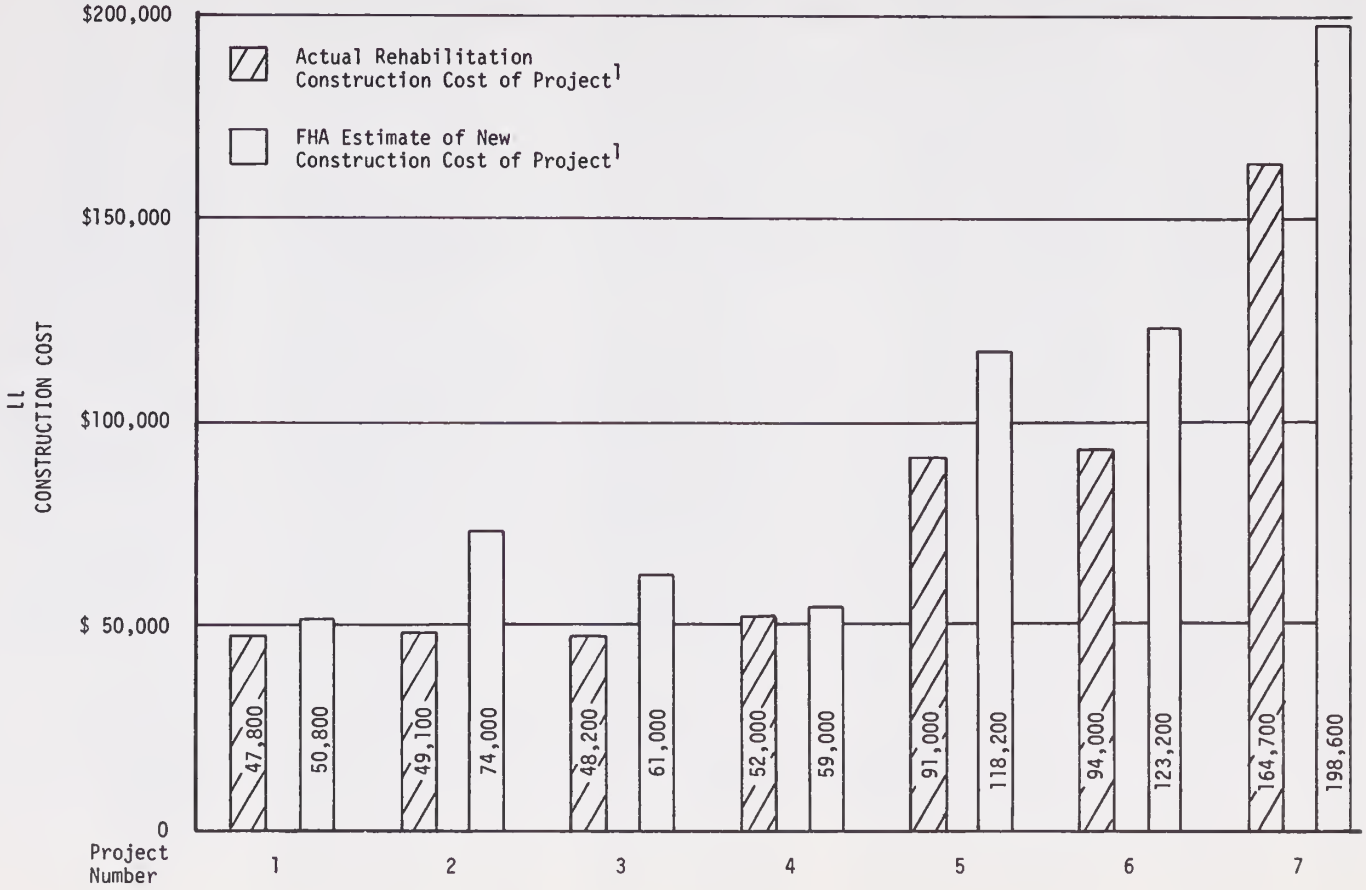
[23]Robert Whittlesey, The South End Row House and Its Rehabilitation for Low Income Residents (Boston: 1969), pp. 4-21.

[24]DeGrazia, "Rehabilitation is not Working as a Resource for Community Development."

[25]President's Committee on Urban Housing, Technical Studies Vol. II (Washington, D.C.: 1969) pp. 31, 37-38.

Exhibit 1-2

SECD: REHABILITATION CONSTRUCTION COSTS VS. NEW CONSTRUCTION COSTS



[1]Rounded to nearest hundred.

Source: Robert Whittlesey, The South End Row House and Its Rehabilitation for Low Income Residents, (Boston, 1969), pp. 4-21.

has estimated that the average construction cost for new low-rent public housing was $17,900 - substantially higher than the average ($8,170) construction cost of a unit rehabilitated under the same program.[26]

HUD's projection until 1978 of the per-unit construction cost of new as opposed to rehabilitated public housing units showed that the latter are considerably less expensive than the new units. The disparity in construction costs between new and rehabilitated units is also evident in other federal housing programs. (See Exhibit 1-3)

In practice, however, rehabilitation has not always been cheaper than new construction. For example, the RRDP in New York City had a project cost estimated at either $49 (HUD estimate) or $53 (Institute of Public Administration estimate)[27] per usable square foot - more than double the square foot costs of comparable new construction. The RRDP effort, however, was atypical in that rehabilitation was effected in 48 hours and labor overtime, crane rental, and offsite assembly costs were considerably higher than on other rehabilitation efforts. Overall however, even extensive rehabilitation has generally been less expensive than comparable new construction.

Time Savings

Rehabilitation has generally required less time than new construction. BURP rehabilitated approximately 2,000 dwellings in less than a year, whereas the demolition of 2,000 existing units and their replacement by a like number of new units would have taken at least twice as long. In CHIP, rehabilitation takes approximately ten weeks from commencement to completion, which is far shorter than the time span needed for new construction.

Other Benefits

Unlike a new construction project which entails the construction of new site improvements such as streets and sewers, a rehabilitation project can maintain existing site improvements. Furthermore, as noted earlier, there is no interruption in property taxes during rehabilitation as there is in urban renewal redevelopment. Although rehabilitation has not realized all the advantages attributed to it, it does offer numerous advantages over new construction. It is an especially

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[26] United States Congress, House, Second Annual Report on National Housing Goals 91st Congress, 2nd session, p. 67.

[27] Institute of Public Administration, Rapid Rehabilitation, Chapter III.

Exhibit 1-3

PROJECTED HOUSING UNIT CONSTRUCTION COSTS IN THREE FEDERAL HOUSING PROGRAMS, 1971-1978

Program	FISCAL YEARS							
	1971	1972	1973	1974	1975	1976	1977	1978
New Low Rent Public Housing	$17,900	$18,760	$19,380	$19,860	$20,360	$20,870	$21,390	$21,920
Rehabilitated Low Rent Public Housing	8,170	8,560	8,840	9,070	9,290	9,530	9,770	10,010
New 235 Housing[1]	12,730	13,270	13,620	13,870	14,120	14,390	14,650	14,900
Rehabilitated 235 Housing[1]	9,780	10,250	10,580	10,850	11,120	11,390	11,680	11,970
New 236 Housing[1]	16,420	17,210	17,780	18,230	19,690	19,150	19,630	20,120
Rehabilitated 236 Housing[1]	10,710	11,230	11,600	11,890	12,190	12,490	12,800	13,120

[1]See Exhibit 1-4 for description of housing programs.

Source: United States Congress, House, Second Annual Report on National Housing Goals 91st Congress 1st Session. p. 67.

important strategy in "gray areas" where an expeditious housing program is often crucial to prevent such neighborhoods from deteriorating into slums.

Volume

Despite the many governmental programs to encourage rehabilitation, the volume of rehabilitation has often been inadequate to the need. In 1968 HUD estimated that two million subsidized rehabilitated units would be needed in the ten-year period from fiscal year 1969 until fiscal year 1978.[28] A year later, although estimating different yearly rehabilitation goals from the 1968 HUD estimates; the First Annual Report on National Housing Goals also established an objective that two million units should be rehabilitated between fiscal years 1969 and 1978.[29] (See Exhibit 1-5)

In 1970 the Second Annual Report on National Housing Goals revised the projection for needed future rehabilitation activity from two million subsidized units in the 1969-1978 period to one million.[30] This downward revision was made because of the high cost of rehabilitation due to increased construction costs.

Actual rehabilitation volume has fallen far short of the objectives established by the National Housing Goals. In fiscal year 1969 only 28,700[31] subsidized units were rehabilitated under the major federal

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[28]Estimates prepared by HUD for the President's Committee on Urban Housing, See Emil Sunley Jr., "Tax Incentives for the Rehabilitation of Housing," The Appraisal Journal, July 1971, p. 389

[29]U.S. Congress, House. First Annual Report on National Housing Goals, 91st Congress, 1st Session, p. 14.

[30]U.S. Congress, House. Second Annual Report on National Housing Goals, 91st Congress, 2nd Session, p. 44.

[31]The number of units rehabilitated in different fiscal years listed in this section are the totals reported by the Third Annual Report on National Housing Goals. It should be noted that these volumes are lower than the volumes reported in the Second Annual Report on National Housing Goals because the Third Annual Report utilized a more stringent definition of rehabilitation - where there was an expenditure of $2,500 or more per unit.

rehabilitation programs.[32] This figure represents only 57 percent of the 50,000 units that the First Annual Report on National Housing Goals projected as being needed, and 67 percent of the 43,000 unit objective established by the Second Annual Report on National Housing Goals.(See Exhibits 1-5 and 1-6)

Similarly, in fiscal year 1970, 33,000 subsidized units were rehabilitated, representing only one-third of the 100,000 units projected as being needed by the First Annual Housing Goals Report, and approximately two-thirds of the 50,000 unit objective in the downward revision established by the Second Annual Housing Goals Report. For fiscal year 1972, there is a large disparity between the HUD estimates of actual rehabilitation activity and the 1972 goal of the First Annual Housing Goals Report; though there is only a small difference between the estimated 1972 rehabilitation production and the 1972 rehabilitation goal of the Second Annual Report on Housing Goals. (See Exhibit 1-5)

Not only has the volume of rehabilitation been insufficient, but, as noted, many rehabilitated porperties have been foreclosed and sometimes abandoned. The next two chapters explore why rehabilitation has often failed.

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[32]115, 312, 221(h), 235, 221(d), 236, rent supplement, public housing (leased and Turnkey programs) and the USDA programs (see Exhibit 1-4 for a description of these rehabilitation programs).

Exhibit 1-4

GOVERNMENTAL REHABILITATION PROGRAMS

Programs	Legislative Origin	Description[1]
Title I Home Improvement	1934 National Housing Act	Insures loans made by private lenders to property owners who make home improvements in either single or multifamily dwellings.
Title I Urban Renewal Rehabilitation	1949 Housing Act as Amended 1954	Compensates either two-thirds or three-quarters of the eligible project costs incurred by the local public agency administering an urban renewal rehabilitation program. Eligible project costs include public improvements, surveying properties, and planning and implementing a code enforcement program.
203k-220h	1961 Housing Act	Insures loans made by private lenders to property owners who make major improvements. Maximum loan amounts are $12,000 per family unit ($17,400 in high cost areas) with a term from 5 to 20 years with a 7.5 percent interest rate. The 203k and 220h programs differ only in that the latter can be used only in urban renewal areas.
312,115 Programs	The 312 and 115 programs were established by the 1964 and 1965 Housing Acts respectively	Both programs can be used only by owners of properties in urban renewal or intensive code enforcement areas; or by owners of properties deemed uninsurable because of physical hazards after an inspection by a state FAIR plan. The 115 program grants up to $3,500 to owner occupants with incomes of $3,000 or less. Under the 312 program owner occupants of properties can obtain a $12,000 loan per dwelling unit ($17,400 in high cost areas) at a 3 percent interest rate and a maximum 20 year term.

[1]It should be noted that the mortgage terms, interest rates and other details of the described programs are constantly being modified by both Congressional action and HUD administrative decisions.

Exhibit 1-4 (Continued)

GOVERNMENTAL REHABILITATION PROGRAMS

Programs	Legislative Origin	Description
235	1968 Housing Act	The 235 program provides interest subsidies on loans to families with incomes not exceeding 135 percent of the limits prescribed for admission to local public housing for the purchase of new, existing or substantially rehabilitated houses. A federal interest subsidy reduces the effective mortgage interest rate paid by the moderate-income mortgagor to as low as one percent, but the mortgagor must pay 20 percent of his adjusted income for the mortgage payments.
221h-235j	The 221h and 235j programs were established by the Demonstration Cities and Metropolitan Development Act of 1966 and the 1968 Housing Act respectively. The 221h program has been phased out and has been replaced by the almost identical 235j program.	Direct below-market interest rate loans are made to nonprofit sponsors for purchasing and rehabilitating properties. The properties are then sold to families with the same income limits as in the 235 program who can obtain long term (up to 40 years) mortgages with an interest rate as low as one percent.
221d3 236	The 221d3 and 236 programs were established by the 1961 and 1968 Housing Act respectively.	Nonprofit or limited profit sponsors can obtain long term (up to 40 years) low interest rate mortgages (as low as one percent) for rehabilitating multifamily housing to house moderate income families.

Exhibit 1-4 (Continued)

GOVERNMENTAL REHABILITATION PROGRAMS

Programs		
106	1968 Housing Act	Provides interest-free, seed money loans for nonprofit sponsors of new or rehabilitated housing for low or moderate income families to cover preconstruction costs involved in planning and obtaining financing for a proposed project. The loans are repayable when the permanent mortgage proceeds become available as the costs they cover are generally included in mortgage financing.
502 504 Rural Housing Loans	Title V of the 1949 Housing Act	Both programs provide below market interest rate loans for the purchase or improvement of rural homes.
State Programs	Many state programs encouraging both rehabilitation and new construction are effected by state housing finance agencies, many of which were established in the late 1960s.	1. Seed Money Loans[1] Mass., New Jersey, Delaware, North Carolina, Maryland. 2. Construction Loans[1] New York, Michigan, Illinois, Maine, Maryland. 3. Mortgage Loans[1] New York, Massachusetts, Michigan, New Jersey, Illinois. 4. Acquire Properties for Resale to Housing Sponsors[1] New Jersey, Delaware, Maryland, Hawaii.

[1]Examples of states offering these programs.

Sources: House of Representatives, Committee on Banking and Currency, Basic Laws and Authorities on Housing and Urban Development (Washington, D.C., Government Printing Office 1971).

Housing and Urban Development "Dealer Guide to Property Improvement Loans" (Washington, D.C., Government Printing Office 1969).

Robert Taggart III, Low Income Housing: A Critique of Federal Aid (Baltimore, The John Hopkins Press, 1970) p. 18-20

Robert Alexander, "Fifteen State Housing Finance Agencies in Review" Journal of Housing, January, 1972, p. 9-17.

Exhibit 1-5

NEEDED AND ACTUAL VOLUMES OF SUBSIDIZED REHABILITATION
1969-1978
(IN THOUSANDS OF HOUSING UNITS)

Fiscal Year	1968 HUD estimate of needed subsidized rehabilitation volume[1]	1969 HUD estimate of needed subsidized rehabilitation volume[2]	1970 HUD estimate of needed subsidized rehabilitation volume[3]	Actual subsidized rehabilitation volume[4]
1969	50	50	43	28.7
1970	100	100	50	33.0
1971	150	150	60	51.7
1972	200	175	75	73.2
1973	200	175	100	-
1974	250	175	130	-
1975	250	250	135	-
1976	300	275	135	-
1977	250	325	135	-
1978	250	325	137	-
TOTAL:	2000	2000	1000	

[1]Estimates propared by HUD for the President's Committee on Urban Housing. See Emil Sunley Jr. "Tax Incentives for the Rehabilitation of Housing", The Appraisal Journal July 1971, p. 389.

[2]United States Congress, House, First Annual Report on National Housing Goals 91st Congress 1st session, p. 14.

[3]United States Congress, House, Second Annual Report on National Housing Goals 91st Congress 2nd session, p. 44.

[4]United States Congress, House, Third Annual Report on National Housing Goals 92nd Congress 1st session, p. 29. (See Exhibits 1-6 for breakdown of subsidized rehabilitation.)

Exhibit 1-6

BREAKDOWN OF SUBSIDIZED REHABILITATION, FISCAL YEARS 1969-1972

Rehabilitation Programs	Subsidized Units Rehabilitated in Fiscal Years 1969	1970	1971[1]	1972[1]
HUD programs	18,810	22,890	35,400	58,500
USDA programs	9,860	10,060	16,300	14,700
1- to 4-family, total	16,580	19,460	30,200	38,500
HUD	7,070	9,590	14,200	24,100
Sec. 235	.....	410	4,000	14,300
Secs. 115/312	5,750	7,710	9,800	9,800
Sec. 221(h)	1,320	1,470	400	.....
USDA	9,510	9,870	16,000	14,400
Multifamily, total	12,090	13,490	21,500	34,700
HUD	11,740	13,290	21,200	34,400
Public Housing	5,930	7,090	6,000	5,000
Conventional	.....	.....	.....	.....
Turnkey, leased	5,930	7,090	6,000	5,000
Sec. 235	70	2,270	12,400	23,500
Rent Supplement	540	750	1,100	5,700
State assisted projects	.....	.....	.....	.....
Sec. 221(d) (3)BMIR	5,050	3,190	1,700	200
Sec. 202	160	.....	.....	.....
USDA	350	200	300	300
Total subsidized rehabilitation[2]	28,670	32,950	51,700	73,200

[1]Estimate

[2]Details do not necessarily add to totals because of rounding.

Source: U.S. Congress, House, Third Annual Report On National Housing Goals 92nd Congress 1st Session, p. 29.

Chapter II

MAJOR RESTRAINTS TO REHABILITATION: FINANCING, ACQUIRING SUITABLE PROPERTIES, AND PROBLEMS OF MANAGEMENT AND MAINTENANCE

There are many restraints to rehabilitating properties for moderate income families. Not only has it been difficult to obtain financing for such rehabilitation, but it has frequently been difficult to acquire properties for rehabilitation expeditiously and cheaply. Another major problem has been the frustration and expense of managing and maintaining the properties after rehabilitation has been completed. This chapter addresses itself to examining these three major restraints.

FINANCING

Problems in Obtaining Conventional Financing

Many rehabilitation efforts have experienced problems in obtaining conventional (nongovernmental guaranteed or subsidized) financing.[1] In Providence, Rhode Island a major reason for the failure of Micah, a rehabilitation venture, was that the prospective buyers of the rehabilitated properties encountered problems in obtaining financing.[2] A study of the Queens Village Rehabilitation effort (QVI) in Philadelphia noted that none of the problems that were encountered were as difficult or crucial as the difficulty in obtaining financing. The financing

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[1]For a discussion of the problems in obtaining conventional financing see Nash, Residential Rehabilitation Chapter six. See also testimony of William Ross in U.S. Congress, House of Representatives, Committee on Banking and Currency. Ad Hoc Subcommittee on Home Financing Practices and Procedures, Financing of Inner City Housing, (Washington, D.C.: Government Printing Office, 1969), p. 242 and George Sternlieb, "Abandonment and Rehabilitation: What Is to Be Done," in U.S. Congress, House of Representatives Committee on Housing Panels, Papers Submitted to Subcommittee on Housing Panels on Housing Production, Housing Demand and Developing a Suitable Living Environment. (Washington, D.C.: Government Printing Office, 1971), pp. 334-365.

[2]John Kenower Micah:A Case Study in Housing Rehabilitation through Non-Profit Sponsorship (Providence: 1969).

problems of QVI are highlighted in the following description:[3]

> We (QVI) asked Union Federal Savings and Loan to be the mortgage lender for these four houses. This is the company that took the mortgage on the first house we sold which had a conventional rather than an FHA insured mortgage. Union Federal inspected the area for the first time and because of what they saw refused to make any further loans.
>
> We next went to Fidelity Bank and Mortgage Company and Harry Glazer, their vice-president, offered to make the mortgages but couldn't make the interim loan to us for construction purposes as they weren't in this business. He suggested First Federal Savings and Loan Association.
>
> First Federal Savings and Loan Association tentatively agreed to make both the permanent loan and the construction loan but only on the condition that FHA give us a firm builders' commitment. (The) FHA stated that it wasn't their policy to make firm builders' commitments to an organization like ours. This eliminated First Federal as a source for an interim loan which would make it impossible for us to build the house.
>
> We then went to Frankfort Trust Co. which specialized in construction loans, but they would consider making such loans only if First Federal made a formal agreement to take the permanent mortgage. First Federal reluctantly agreed but put a 120 day limitation on its agreement which in effect nullified its offer.

Furthermore even when rehabilitation sponsors have been able to obtain conventional financing, it has often consisted of short-term, low loan to value ratio, high-interest mortgages. In Boston a rehabilitation project in the South End could obtain only mortgages with 10 to 12 year terms at a 50 percent loan to value ratio.[4] The lack of long-term, low-interest mortgages for rehabilitation in many urban neighborhoods has often made moderate income rehabilitation in such areas unfeasible because prevailing high financing costs necessitate high rentals.

Problems with Governmental Financing Programs

Although existing governmental financing programs (see Exhibit 1-4)

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[3]Paul Niebanck and John Pope, Residential Rehabilitation; The Pitfalls of Non-Profit Sponsorship (Philadelphia Institute of Environmental Studies, University of Pennsylvania:1968), p. 59.

[4]Whittlesey, South End Row House, p. 6.

have alleviated the problem of financing moderate income rehabilitation, they have not completely eliminated the difficulties because in many instances statutory loan limits have been unrealistic; the FHA mortgage interest rates have not been competitive; the processing of the FHA rehabilitation mortgages has often been time-consuming and costly; and geographical and other restrictions limit when and where one can obtain a rehabilitation loan.

Unrealistic Statutory Limitations

Most FHA rehabilitation programs impose statutory limits on the per-unit mortgage that can be granted. In New York City, for example, where extensive rehabilitation up to FHA rehabilitation standards has been estimated to cost $27,000 per unit, the maximum mortgage amount for most of the FHA mortgage programs is only $21,000.[5] The President's Task Force on Low Income Housing concluded that the artifical cost and mortgage limitations currently incorporated in housing laws have impeded and in some cases are totally preventing the production of low income housing in areas of greatest need.[6]

In other instances private lenders have been unwilling to make rehabilitation loans even though these loans were insured by the FHA. One of the major reasons for low volume of rehabilitation in the 230k-220h programs was that lenders preferred to make Title I loans because the latter had a higher interest rate.[7] Recently lenders have been unwilling to make even these Title I loans because they can secure a higher interest rate on conventional home improvement loans.

Noncompetitive FHA Mortgage Interest Rates

The maximum interest rate allowed on FHA-insured mortgages has frequently lagged behind that obtainable by lenders on bonds or conventional mortgages.[8] Under such conditions mortgagees have demanded that

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[5]The New York Times, February 13, 1972.

[6]President's Task Force on Low Income Housing, "Toward Better Housing for Low Income Families," (Washington D.C.: Government Printing Office, 1970) p. 10.

[7]Department of Housing and Urban Development, Rehabilitation Programs: A Report by the Department of Housing and Urban Development to the Subcommittee on Housing and Urban Affairs: (Washington, D.C.: Government Printing Office, 1967.)

[8]The 1970 and 1971 Housing Acts gave the Secretary of HUD greater flexibility in establishing the maximum mortgage amounts and mortgage interest rates for the federal housing programs.

they be paid "points" which are a percentage of the mortgage. (To illustrate the affect of points, if a mortgagee demanded 8 "points" before he would grant a $100,000 mortgage, the mortgagor would have to pay the mortgagee $8,000).

In 1971, for example, the FHA maximum mortgage interest rate was 7 percent. Since lenders could obtain an 8 percent interest rate or more on conventional mortgages they demanded 7 to 10 points before they would grant FHA mortgages.[9] A potential sponsor may be deterred from embarking upon a rehabilitation effort if he has to pay points on the mortgage he receives.

Time Consuming and Expensive Mortgage Processing

There is some truth to the quip that a project is ready for the initial closing when the stack of FHA forms and required exhibits is as high as the projected building. Scores of authors have criticized the FHA rehabilitation programs as being almost totally ineffectual because of the omnipresent expense and delay in their processing.[10]

The SECD found FHA mortgage processing excruciatingly slow and expensive.[11] (See Exhibits 2-1 and 2-2). The Urban Rehabilitation Corporation in Washington, for example, had to submit three applications for a federal seed money loan (106 program); by the time these proposals were accepted most of the federal seed money loan funds had already been disbursed.[12]

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[9]The Wall Street Journal, July 16, 1971. See also U.S. Congress, House of Representatives, Subcommittee on Housing of the Committee on Banking and Currency. The Residential Mortgage Financing Problem (Washington, D.C.: Government Printing Office, 1971.)

[10]See Bernard E. Loshbough, "Rehabilitation of Housing: Federal Programs and Private Interest," Law and Contemporary Problems Vol. 32, No. 3, Summer 1967, p. 423. Jason Nathan, "Rehabilitation is Not Working as a Resource for Community Development," Journal of Housing No. 11. December 1967, p. 620.

[11]Whittlesey, South End Row House, Chapter 5.

[12]Statement of Geno Baroni in Financing of Inner City Housing, p. 74.

Exhibit 2-1

COMPLETION DATES IN CONNECTION WITH FHA LOAN PROCESSING IN SECD REHABILITATION PROJECTS

Project	FHA 2012[1] submitted	Commitment Application requested	FHA 2013R[2] submitted	FHA Feasibility completed	Revised FHA 2013R submitted	Commitment issued	Initial Closing	Start of construction	Occupancy	Final Closing
1	11/2/64[3]	12/1/64[4]	12/17/64	7/6/65	7/9/65[5]	10/8/65	1/14/66	10/27/65	6/3/66	1/30/67
2	11/2/64[3]	12/1/64[4]	12/17/64	7/15/65	7/30/65[5]	10/8/65	1/14/66	10/27/65	8/25/66	1/30/67
3	11/2/64[3]	12/1/64[4]	12/17/64	7/15/65	7/30/65[5]	10/22/65	1/12/66	1/13/66	10/24/66	8/7/67[6]
4	11/2/64[3]	12/1/64[4]	12/17/64	7/15/65	7/30/65[5]	10/22/65	1/12/66	1/13/66	12/2/66	8/7/67[6]
5	8/24/65	10/25/65	1/24/66	6/9/66[7]	6/23/66	9/6/66	10/28/66	10/28/66	7/26/67	3/25/68[6]
6	8/24/65	11/15/65	3/14/66	7/11/66	8/12/66	12/29/66	1/26/67	1/26/67	11/28/67	3/25/68
7	9/13/66	12/13/66[8]	3/10/67	8/14/67	--	11/16/67	12/18/67	11/22/67	6/3/68	1/15/69

[1]FHA 2012 - Request for pre-application analysis of multifamily housing proposal.

[2]FHA 2013R - application for project mortgage insurance.

[3]FHA 2012 was not submitted at FHA's request; only architectural layouts and site plans submitted.

[4]Location approved.

[5]A second revised application submitted in September 1965 after National Housing Act was amended.

[6]Reprocessing delayed final closing.

[7]Commitment issued was not accepted by SECD.

[8]Delayed 6 weeks awaiting allocation.

Source: Robert Whittlesey, The South End Row House and Its Rehabilitation for Low Income Residents (Boston: 1969). p. 5-3.

Exhibit 2-2

MORTGAGE PROCESSING COSTS IN THE SECD REHABILITATION EFFORT

Project	Legal Costs[1]		Other Processing Costs		
	Allowed in loan	Additional Amount Expended	Allowed in loan	Additional Amount Expended	Total Processing Costs
1	$235	$807	-	$12,900	$13,942
2	230	737	-	12,900	13,867
3	234	831	-	12,900	13,965
4	300	834	-	12,900	14,034
5	600	281	-	12,900	13,781
6	530	45	-	12,900	13,475
7	994	-	$2,006	10,894	13,894

[1]Does not include title and recording costs

[2]Grant portion paid under special services contract

Source: Robert Whittlesey, The South End Row House and Its Rehabilitation for Low Income Residents (Boston: 1969). p. 5-4.

Geographical and Other Restrictions

The geographical restrictions imposed by federal funding programs have also impeded the usefulness of some rehabilitation programs. The 115 grants and 312 loans are made only in urban renewal or code enforcement areas.

Restrictions on refinancing have also limited the usefulness of certain governmental rehabilitation programs. Under the 312 program, for example, an owner occupant can refinance his existing mortgage only if the aggregate debt service for the rehabilitation loan and the existing mortgage debt is higher than 20 percent of his monthly income. (In practice, only one-third of the 312 loans have involved refinancing.)

Refinancing is important because it limits rent increases after rehabilitation. The Kristof study in New York City calculated that if extensive 312 rehabilitation were effected with a 20-year, three percent 312 loan without refinancing, then the rents on a 5.5 room unit would increase $45 -- from $138 to $183.[13] In contrast, if such rehabilitation were attempted with refinancing, then in a building (with a high existing debt) rents would increase only $14 -- from $138 to $152. (See Exhibit 2-3) Clearly, then, the restriction of refinancing in the 312 program impedes its usefulness.

Furthermore, certain rehabilitation programs may be inappropriate for either the purchase or rental of rehabilitated properties by low income families. The Title I home improvement program is not suitable for use by low income property owners because its financing charge is prohibitive -- as high as 10 percent annually. And the 203k-220h loans have similarly prohibitive financing terms.

ACQUIRING PROPERTIES FOR REHABILITATION

Property Acquisition Problems: Overview

The problem of acquiring properties to be rehabilitated, has hampered many rehabilitation efforts, especially the large-scale projects. In hearings before the National Commission on Urban Problems in 1968, builder-developer James Rouse asserted that rehabilitation could be effective only on a massive scale and that such large-scale rehabilitation was constantly being frustrated because there were no means of

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[13]Kristof, A Large Scale Rehabilitation Program for New York City, p. 17.

EXHIBIT 2-3

COMPARISON OF MONTHLY RENTS BEFORE AND AFTER REHABILITATION UNDER THE SECTION 312 PROGRAM BASED ON LEVEL OF REHABILITATION, AMOUNT OF OUTSTANDING INDEBTEDNESS AND INCREASES IN TAXES

MODEL A

Building Characteristics

2 units, 11 rooms; 2 story, masonry; owner-occupied. Average number of rooms per unit: 5.5. Assessed value: $10,000. As-is value: $15,000.

LEVELS OF REHABILITATION	Without refinancing of outstanding indebtedness — Section 312 — Low existing debt ($5,000)	Without refinancing of outstanding indebtedness — Section 312 — High existing debt ($12,500)	With refinancing of outstending indebtedness — Section 312 — Low existing debt ($5,000)	With refinancing of outstending indebtedness — Section 312 — High existing debt ($12,500)
MINIMAL REHABILITATION				
Terms of loan	20 years – 3 percent		20 years – 3 percent	
Cost of improvements including all fees	$ 2,500.00		$ 2,500.00	
Required rehabilitation loan	3,100.00		$ 8,300.00	$16,050.00
Loan limit	3,100.00		8,300.00	16,050.00
Current monthly rent per unit[1]	137.50		137.50	137.50
New monthly rent per unit[2]	149.05		130.30	117.90
Net change	11.55		-7.20	-19.60
Current monthly rent per room[1]	25.00		25.00	25.00
New monthly rent per room[2]	27.10		23.70	21.45
Net change	2.10		-1.30	-3.55
MODERATE REHABILITATION				
Terms of loan	20 years – 3 percent		20 years – 3 percent	
Cost of improvements including all fees	$ 7,600.00		$ 7,600.00	
Required rehabilitation loan	$ 8,450.00		$13.700.00	$21,500.00
Loan limit	8,450.00		13.700.00	21,500.00
Current monthly rent per unit[1]	137.50		137.50	137.50
New monthly rent per unit[2]	169.65		150.95	138.60
Net change	32.15		13.45	1.10
Current monthly rent per room[1]	25.00		25.00	25.00
New monthly rent per room[2]	30.85		27.45	25.20
Net change	5.85		2.45	0.20
EXTENSIVE REHABILITATION				
Terms of loan	20 years – 3 percent		20 years – 3 percent	
Cost of improvements including all fees	$10,800.00		$10,800.00	
Required rehabilitation loan	11,900.00		$17,150.00	$24,950.00
Loan limit	11,900.00		17,150.00	24,950.00
Current monthly rent per unit[1]	137.50		137.50	137.50
New monthly rent per unit[2]	182.60		163.85	151.55
Net change	45.10		26.35	14.05
Current monthly rent per room[1]	25.00		25.00	25.00
New monthly rent per room[2]	33.20		29.80	27.55
Net change	8.20		4.80	2.55

[1] Source: U.S. Bureau of the Census, New York City Special Tabulations, 1963.

[2] Without refinancing: Calculated on basis of additional debt service for Section 312 loan and additional real estate taxes on increased assessment of 50 percent cost of improvements. A Section 115 grant of $1,500 could reduce monthly rents by approximately $4.15 per unit.

Source: Frank Kristof, A Large Scale Residential Rehabilitation Program for New York City. (New York: Housing and Development Administration Bureau of Planning and Program Research, 1967), p. 17.

acquiring sufficient properties.[14] Rouse noted that although local planning agencies (LPA's) were empowered to acquire properties for rehabilitation through condemnation, in practice, few if any LPA's went beyond condemning and demolishing properties and then selling the cleared tracts to sponsors of new construction.

The problems encountered by large-scale projects have tended to overshadow the fact that even comparatively small rehabilitation efforts have had difficulty in obtaining properties. The SECD rehabilitation effort, for example, which initially rehabilitated only 50 apartments, faced difficulties (to be discussed shortly), in acquiring cheap properties with clear title.[15]

Property Acquisition Problems: Specifics

It is an oversimplification to place the blame for these problems solely on outdated property and foreclosure laws. True, they are significant factors but they are by no means the only reasons for the property acquisition problems.

Properties for rehabilitation are obtainable both from the private market and from government agencies. Purchase from private sources is frequently more expedient because it can be effected either by directly approaching an owner or through the services of a realtor. Private acquisition however, is beset by a myriad of problems.

Locating and Negotiating with Owners

Locating and subsequently negotiating with owners of many inner city properties, especially of abandoned structures, can frequently be frustrating. (The SECD encountered great difficulty in finding the owners of the vacant buildings it wished to purchase.) The difficulties stem from inaccurate or outdated city records and from lack of owner cooperation.

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[14]National Commission on Urban Problems. Hearings before the National Commission on Urban Problems, Volume I. (Washington, D.C.: Government Printing Office, 1968), p. 3.

[15]Whittlesey, South End Row House, Chapter I.

Some inner city properties are characterized by many changes in ownership. (One old law tenement on West 114th Street in New York City, had changed hands 21 times between 1884 and 1966.[16]) Often the municipal records of property ownership are either inaccurate or out of date. In such cases, the purchase is contingent upon an expensive private title search. Even in cases where the municipal records are correct and updated, many owners of inner city properties are wary of being contacted because their properties may be debt-ridden or in violation of building or health codes.

High Property Cost

The cost of the properties desired by rehabilitation sponsors has often been prohibitive. In Washington, D.C., the Urban Rehabilitation Corporation encountered the problem of a "very tight housing market where even battered up abandoned houses were not readily available at reasonable prices."[17]

The high property prices are often attributable to urban renewal itself or to the competition of middle-class families interested in renovating row houses or brownstones. In Boston's South End, with the advent of urban renewal, the price of vacant row houses rose from $2,000 - $3,000 per property in 1960 to three to four times that amount in 1964-65.[18]

Delinquent Taxes and Clearing Title

Even if an owner can be located and a reasonable purchase price agreed upon, a large amount of back taxes may make the rehabilitation of the property economically unfeasible.[19] A rehabilitation sponsor can negotiate with the local taxing authority to reduce or eliminate the tax delinquency, but such a reduction will not always be granted; nor is it

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[16]U.S. Department of Housing and Urban Development. The House on West 114th Street. (Washington, D.C.: Government Printing Office, 1968) p. 24.

[17]Statement of Geno Baroni in Financing of Inner City Housing, p. 67.

[18]Whittlesey, South End Row House, p. 1-23

[19]For a discussion of the problem of back taxes in acquiring properties for rehabilitation see Curtis Berger, Eli Goldston and Guido A. Rothrauff "Slum Area Rehabilitation by Private Enterprise," Columbia Law Review Volume 69, No. 5, May 1969, p. 745-746.

legally possible in some jurisdictions to forgive the entire amount of back taxes.[20]

Back taxes and tax liens are related to another problem of acquiring properties - obtaining clear title to the property. If there are delinquent taxes, a tax lien, which is a first lien superceding all other encumbrances will be placed on the property. Legal questions of the exact status of "straw-man" ownership may further complicate the transfer of strong title. Furthermore, in the presence of second and third mortgages many inner-city properties also complicates title transfer.

Obtaining clear title is imperative if a rehabilitation sponsor wishes to obtain an FHA-insured mortgage. The FHA will insure a mortgage only if its lien is the first and best lien on a property. Consequently if the sponsor has questionable title on a property, the FHA will frequently refuse to grant him a mortgage to rehabilitate the property.

LPA Condemnation and Writedown

Theoretically, properties for rehabilitation could be acquired by a local public agency (LPA) utilizing its power of eminent domain. An LPA is an official body empowered to contact the federal government for assistance in carrying out urban renewal projects; it may be either a governmental entity, such as a municipality, or a separate body, such as a redevelopment or housing authority.

Having designated an area as an urban renewal site, an LPA can use its power of eminent domain to acquire properties for resale at a reduced cost to a rehabilitation developer. Under the federal Title I Urban Renewal Program such an LPA land writedown is considered an eligible project cost and as such can be compensated by the federal government.

Few LPA's, however, have actually purchased properties and written down their cost for resale to rehabilitation sponsors. There are two reasons for this: their commitment to redevelopment rather than rehabilitation and their doubts about the legality of the writedown.

Obstacles to LPA Condemnation

Most LPA's have focused on acquiring and demolishing properties in order to sell the cleared tracts to developers of new housing. HUD has generally restricted LPA writedown of properties for resale and to rehabilitation sponsors to experimental cases.[21]

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[20] Ibid.

[21] U.S. President's Committee on Urban Housing, A Decent Home. (Washington, D.C.: Government Printing Office, 1969,) p. 102.

Moreover, the legality of LPA writedown has been clouded by questions of whether public condemnation of properties for resale to rehabilitation sponsors serves a public purpose and whether property is being taken without due process of law.[22] These questions parallel earlier ones surrounding property condemnation for the purpose of new construction.[23] A host of court cases challenging the legality of such LPA condemnations resulted in a majority of decisions favoring these condemnations as serving a "public use" and "public purpose" by eliminating slums.[24] It would appear that these court decisions would likewise uphold the constitutionality of LPA condemnation for rehabilitation because the objective of slum elimination is the same in both cases.[25] However, many rehabilitation efforts are effected in "gray" areas -- those that are not yet considered or classified as a slum. If the sine qua non of constitutional condemnation by LPA's is the elimination of slums, then there remains some question about the constitutionality of condemnation for rehabilitation in "gray areas" to prevent a slum. William Slayton has noted the following:

> If eminent domain is to be used (in condemnation) a good deal of thought must go into justifying its use as a public purpose. Under urban redevelopment, the public purpose is the clearance of the slum, allowing it to continue would endanger the health and welfare of the city's inhabitants... Where rehabilitation is the end product and where the conditions of the structures in the area are not definable as "slums" no slum clearance is involved. The public purpose must be the prevention of the area from becoming blighted.

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[22]William S. Slayton, "Conservation of Existing Housing" Law and Contemporary Problems Vol. 20, No. 3, Summer 1955, p. 453. In the opinion of H.N. Osgood and A.H. Zwerner there are no basic constitutional bars to using eminent domain powers to facilitate the rehabilitation of deteriorating areas. See Osgood and Zwerner "Rehabilitation and Conservation," p. 716.

[23]See "Urban Renewal: Problems of Eliminating and Preventing Urban Deterioration," Harvard Law Review, Vol. 72, No. 3, January 1959, pp. 519-528.

[24]See Redevelopment Agency of City and County of San Francisco v. Hayes, 122 Cal. App. 2d 777, 266 p. 2d 105 (1954), Van Hoff v. Redevelopment Agency, 348 U.S. 897 (1954), People ex rel Gutknecht v. City of Chicago, 3 Ill. 2d 539, 121, N.E. 2d 791 (1954). Miller v. City of Tacoma, 61 Wash. 2d 374, p. 2d 464 (1963).

[25]Warren, "Conservation and Rehabilitation," p. 904.

(Hence using eminent domain for rehabilitation is a considerable extension of the public purpose concept.)[26]

In acquiring properties under the urban renewal program, an LPA is required to pay any back property taxes, though like a private developer, an LPA can negotiate with the municipal taxing authorities to reduce the amount payable.[27] If a rehabilitation sponsor acquired a property from an LPA that had not paid the delinquent taxes due, he would have to pay these taxes himself.

Buying City-Owned Properties

Another possible strategy is for the rehabilitation sponsor to purchase municipally owned property. Not all such properties, are suitable for rehabilitation, however. Some may have been abandoned and vandalized to the extent that rehabilitation would be extremely expensive. Or the property's size, whether extremely large or small - may mitigate against rehabilitation.[28] Rehabilitation may further be contraindicated in a building whose antiquated design served the minimal housing standards of the past, e.g. the floor plan of a New York City old law tenement. And some of the city-owned properties may be slated for demolition because of urban renewal projects or highway construction.

Buying and Foreclosing Tax Liens

A rehabilitation sponsor could also purchase tax liens, sold periodically by a municipality in cases of delinquent property taxes, and subsequently foreclose these liens.[29] Or the municipality could foreclose these liens and then offer to sell the foreclosed properties to rehabilitation sponsors. These strategies, however

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[26]See Slayton, "Conservation of Existing Housing" p. 453.

[27]Berger, Goldston and Rothrauff "Slum Rehabilitation by Private Enterprise," p. 746.

[28]See Jerome Weinstein "Rehabilitation Success Depends on Solving Problems of Property Acquisition," Journal of Housing No. 5, May 1970, p. 241.

[29]See George Sternlieb and Robert Burchell, Residential Abandonment: The Tenement Landlord Revisited (New Brunswick: Center for Urban Policy Research, Rutgers University Forthcoming 1972), for a discussion of the problems of foreclosing tax delinquent properties in Newark. See also Sheldon Schneiberg, "Abandoned Buildings: Tenant Condominiums and Community Redevelopment," The Urban Lawyer Vol. 2, No. 2, Spring 1970, pp. 186-191.

often involve a considerable delay before clear title is obtained. In addition, the costs of foreclosure may be prohibitive. And in some jurisdictions there may be doubts about the strength of the title thereby acquired.

Tax Foreclosure: Time, Cost and Other Considerations

A tax sale of a delinquent property is usually held after taxes are anywhere from under one year to five or more years in arrears.[30] The purchaser becomes the inchoate (imperfect) title holder of the land. As such, his title is subject to defeasance should the taxpayer redeem his property by paying the taxes and penalties owed. The period of redemption varies from one to three years. If redemption is not made, the title will rest indefeasibly in the purchaser. The lengthy time span consumed by tax foreclosure procedures greatly reduces the utility of this property acquisition strategy.

A tax delinquent owner may decide to abandon his property; in fact the tax delinquency rate has been suggested as an early warning system of potential abandonment.[31] An abandoned property, unless quickly acquired by the rehabilitation sponsor or the municipality, may be vandalized to the extent that rehabilitation would be economically unfeasible. During the three or four year period spanning initial delinquency to actual tax foreclosure, an abandomed building may have deteriated so badly as to be fit only for demolition.

Furthermore, the expense of the tax foreclosure process has frequently deterred rehabilitation sponsors from foreclosing tax-delinquent parcels. A recent study in Newark revealed that the foreclosure of a delinquent tax property with a $15,000 assessed value by a private party would cost $6,000.[32] (See Exhibit 2-4).

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[30]International Association of Assessing Officers, "Summary of Property Tax Enforcement Provisions."

[31]Sternlieb, "Abandonment and Rehabilitation: What Is To Be Done," p. 324.

[32]Sternlieb and Burchell, Residential Abandonment: The Tenement Landlord Revisited.

Exhibit 2-4

In Persona Foreclosure of a Newark Property With An Assessed Value of $15,000.

Date	Tax Delinquency Sale and Foreclosure Actions	Cost to private lien holder
November 1969-	Property becomes delinquent	
November 1971-	Tax Sale is held[1] and private lien purchaser pays 1970 delinquent taxes of $1100	$1100
November 1971	To keep tax lien current purchaser pays outstanding taxes of $1100.	$1100
November 1971- November 1973	Tax lien purchaser pays property taxes during two year period of redemption	$2200
November 1973- May 1974	In persona foreclosure proceedings are conducted entailing a legal expense of $1000. The foreclosure procedure takes 6 months and the tax lien purchaser pays property taxes of $600.	$1600
		$6,000

[1]New Jersey law stipulates that a tax sale cannot be held until at least six months after the close of the calendar year in which the delinquent taxes were levied.

Source: George Sternlieb and Robert Burchell, Residential Abandonment: The Tenement Landlord Revisited (New Brunswick: Center for Urban Policy Research, Rutgers University, Forthcoming 1972.)

Furthermore, tax deeds have been voided on some of the following technicalities: the property was sold for slightly more than the taxes that were due; the tax purchase was made on credit instead of cash as required by law; a minute description of the property was not given; and a tax sale was held in a courthouse instead of being held, as literally required by statute, before the doors of the courthouse.[33]

Courts have challenged the standing of tax deeds granted administratively without judicial proceedings for two major reasons[34]: lack of equity and departure from accepted sales procedures. Tax foreclosures have sometimes been a bonanza for the tax speculator at the expense of the property owner. Furthermore, in an administrative tax sale, the doctrines of implied fraud, estoppel, and equity which characterize "normal sales" are not applicable and therefore the administrative officer sells something he does not own.

Because of the judicial attitude, rehabilitation sponsors in states where the tax sale is merely an administrative procedure, often hesitate before acquiring tax-delinquent properties for fear they may acquire only a doubtful title. In other states, where tax deeds are issued only after mortgage- like proceedings, a much stronger title is conveyed; however, problems of cost and time lag before foreclosure is completed may still dissuade the rehabilitation sponsor from foreclosing tax delinquent parcels.

MANAGING AND MAINTAINING THE REHABILITATED PROPERTIES

Another major restraint to rehabilitation in many urban areas is the problem of managing and maintaining rehabilitated properties. In hearings before the National Commission on Urban Problems, Hortense Gable, former New York City Rent and Rehabilitation Administrator, noted that the management of older, smaller structures is at an

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[33]For a discussion of the problems of tax foreclosure, see Newman Baker, "Tax Delinquency: Legal Aspects," Illinois Law Review, Vol. 28, No. 2, June 1933, pp. 159-176. Richard Young, "The Tax Deed: Modern Movement Towards Respectability," Rocky Mountain Law Review, Vol. 34, 1961-62, pp. 181-197. William Legg, "Tax Sales and the Constituion," Oklahoma Law Review, Vol 20, No. 4, November 1967. George E. Harbert "Tax Foreclosures and Tax Titles" University of Illinois Law Forum Vol. 1952, pp. 209-225. N. Calver Kenyon, "Status of Oklahoma Tax Titles," Oklahoma Law Review Vol. 8, 1955, pp. 414-447. Notes, "Tax Titles in Montana," Montana Law Review, Vol. 20, No. 1 1958, pp. 73-91.

[34]Baker, "Tax Delinquency: Legal Aspects," p. 162.

absolute primitive level and that "management is the key to it all."[35] Based on the experiences of the SECD rehabilitation effort, its executive director, Robert Whittlesey, concluded that housing management which is so critical to the success of low income housing, poses even thornier problems than the physical rehabilitation process.[36]

Rent Delinquencies and Vandalism

Rehabilitation sponsors have encountered a host of management and maintenance problems. In New York City a rehabilitation project on West 114th Street with a theoretical $60,000 monthly rent role had monthly rent delinquencies of $15,000 to $20,000.[37]

Internal and external vandalism has also been a serious problem. Three buildings that had been rehabilitated on Fox Street in the Southeast Bronx at a cost of $886,000 were completely vandalized a year after tenants had moved in.[38] Scores of buildings rehabilitated in the Boston Rehabilitation Program have also been vandalized-- one building was described as being "almost destroyed in five years."[39] The developers of this particular building had agreed to a Boston Redevelopment Authority request that it be used for relocatees. Its 72 units were soon filled with 219 children under the age of 14. Given the fact that there was no playground within five blocks of the property, the extensive internal vandalism and high maintenance costs come as no surprise.

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[35]Statement of Hortense Gable in National Commission on Urban Problems, Hearings, Volume I., p. 81.
See also Melvin Levin, "The Conference in Context: A Perspective" in Melvin Levin's Innovations in Housing Rehabilitation (Boston: Boston University Urban Institute Monograph No. 2, 1969,) p. 14. And Sternlieb "Abandonment and Rehabilitation. What Is To Be Done," p. 327.

[36]Whittlesey, South End Row House, Chapter 6

[37]The New York Times, September 19, 1971.

[38]Ibid, February 13, 1972.

[39]"Rehabilitation Projects and Middle and Low Income Housing: A Panel Discussion," in New York University Twenty-Ninth Annual Institute on Federal Taxation. (New York: 1971), p. 1176.

Repair-Prone Properties

Unless the interior is gutted and mechanical systems are completely replaced, the maintenance of a rehabilitated older building may be expensive. In the SECD, even after properties were rehabilitated, maintenance problems arose because of the somewhat fragile construction of the South End row house and because certain original repair-prone mechanical components had been retained.[40] Similarly the Octavia Hill Association which rehabilitated properties in Philadelphia encountered severe repair problems.[41]

Lack of Repairmen

Compounding these maintenance problems is the dearth of repairmen. A recent study by the American Homeowners Association, citing a nationwide shortage of repairmen, noted that, on the East Coast for example there is an acute shortage of plumbers, electricians, plasterers, and carpenters.[42] Inner city areas suffer most because repairmen are reluctant to come to certain urban neighborhoods, or will come only in teams for security purposes which often makes the cost of their services prohibitive.[43]

Expense of Maintaining Scattered Properties

In most rehabilitation projects the spatial scattering of rehabilitated properties increases the difficulty and expense in managing them because routine tasks, such as collecting rents consume a great deal of time. The SECD in Boston found that the management of small scattered projects required special costly services.[44] It had to employ a full-time

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[40]Whittlesey, South End Row House, pp. 6-10.

[41]Nash, Residential Rehabilitation, p. 119

[42]The Home News, February 8, 1972.

[43]See Sternlieb "Abandonment and Rehabilitation" p. 327.

[44]Whittelsey, South End Row House. p. X1

property superintendent even though the combined rents from its 50 apartments did not cover his salary. Largely because of its expenses in maintaining the properties it had rehabilitated, the SECD was unable to operate on a break-even cash basis; its estimated annual operating costs covered by FHA-approved rents were considerably lower than its actual operating costs (see Exhibit 2-5).

Landlord - Tenant Racial Differences

Problems of managing and maintaining rehabilitated properties are often exacerbated by racial antipathy between sponsor and tenants. The sponsor may view tenants as irresponsible and incorrigible, and they, in turn, may regard the sponsor as a "heartless slum lord." Such an acrimonious atmosphere poses a definite obstacle to the management and maintenance of rehabilitated properties.

Exhibit 2-5

ANNUAL OPERATING COSTS COVERED BY FHA APPROVED RENTS AND ANNUAL OPERATING COSTS ESTIMATED BY SECD PER APARTMENT

Item	1 FHA	SECD	2 FHA	SECD	3 FHA	SECD	4 FHA	SECD	5 FHA	SECD	6 FHA	SECD	7[5] FHA	SECD
Vacancies	$ 69	$ 26	$ 71	$ 26	$ 70	$ 27	$ 71	$ 26	$ 77	$ 29	$ 83	$ 29	$108	$ 37
Fuel	98	115	120	120	116	115	108	95	103	133	97	133	118	150
Utilities	41	62	41	55	40	63	41	47	43	57	38	51	103	145
Insurance	42	58	65	63	46	58	48	61	61	64	66	78	88	107
Repairs & Painting	61	135	62	135	60	135	64	135	56	148	71	148	106	160
Halls & Misc.	20	35	20	30	20	30	18	35	22	27	22	28	17	33
Management fee	46	200	52	200	46	200	47	200	52	200	55	200	72	200
Reserve	24	41	24	40	24	40	24	37	29	43	38	44	35	60
Total Operating Costs	$401	$672	$455	$669	$422	$668	$421	$636	$443	$701	$470	$711	$647	$892
Real Estate Taxes	$137	$198	$144	$194	$140	$201	$142	$198	$157	$216	$166	$222	$231	$277
Total Operating Costs and Taxes	$538	$870	$599	$863	$562	$869	$563	$834	$600	$917	$636	$933	$878	$1,169

Source: Robert Whittlesey, The South End Row House And Its Rehabilitation for Low Income Residents (Boston: 1969) Chapter 6.

Chapter III

ADDITIONAL RESTRAINTS TO REHABILITATION: ATTRACTING CONTRACTORS, INSURANCE PROBLEMS, AND OTHER PROBLEMS

This chapter examines what the author believes are lesser restraints -- attracting contractors, obtaining insurance and other problems.

ATTRACTING CONTRACTORS

Having hurdled the obstacles attendant upon obtaining financing and acquiring properties, a rehabilitation sponsor is next confronted by the difficulty of attracting contractors to do the rehabilitation work. The SECD, in its attempts to secure bids from South End contractors, found that there was few contractors available in the neighborhood, and those that were local chose not to bid for SECD work.[1] Furthermore, the contractors that have been attracted to rehabilitation work have tended to be both small in size and relatively inexperienced.

The National Commission on Urban Problems has noted that most construction firms are small,[2] an observation that especially applies to rehabilitation bidders. Of the forty municipalities (with Title I Rehabilitation projects) that replied to a Michigan University Law Review questionnaire, over 90 percent reported that the rehabilitation work had been done by small, independent specialized segments of the building industry.[3] Similarly, the President's Committee on Urban Housing found that the rehabilitation industry was dominated by small firms -- often one-man operations specializing in remodeling work.[4]

Reluctance to Work in Urban Neighborhoods

Action Housing, Inc., in Cincinnati, an interim developer of rehabilitation projects that are eventually conveyed to nonprofit groups noted that the lack of qualified rehabilitation contractors is attributable in part to contractor unwillingness to work in many urban neighborhoods.[5]

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[1] Whittlesey, South End Row House, pp. 3-5.

[2] U.S. National Commission on Urban Problems. Building the American City. (Washington, D.C.: Government Printing Office, 1969), p. 431.

[3] Warren, "Conservation and Rehabilitation" p. 908.

[4] U.S. President's Committee on Urban Housing, A Decent Home, p. 108.

[5] Non Profit Housing Center Urban America, Inc., ACTION Housing for Greater Cincinnati. (Washington, D.C., 1968) p. 40.

There are several reasons for this reluctance.

The contractor must contend with the nuisance of keeping his truck locked at all times to avoid the theft of tools and construction materials. The omnipresent fear for their own personal safety in these rundown neighborhoods also contributes to contractors' reluctance. And attractive construction opportunities in the suburbs compete for the contractor's attention.

FHA Profit Restrictions and Paper Work

FHA profit restrictions and paper work may also deter contractors from working on FHA-insured rehabilitation projects. The President of the Urban Rehabilitation Corporation in Washington noted that soliciting contractor participation in the (rehabilitation) program was difficult because of the limited allowable profit[6] -- 10 percent on projects less than $100,000 and 9 percent on projects from $100,000 and above.

Another impediment is the greater amount of contractor paper work usually required on an FHA project compared to a regular construction effort. Furthermore delay in an FHA inspection may also delay payment to the contractor.

Surety Bonds

Those minority group contractors who are willing to engage in rehabilitation projects despite FHA profit restrictions and other drawbacks may be prevented from doing so because of their difficulty in obtaining a surety bond. Since all HUD-assisted contracts require that the general contractor be bonded, this is a serious obstacle.

There are three types of surety bonds bid, payment and performance.[7] A bid bond, which is required before a general contractor can bid on a particular project, assures the developer that the contractor is able to fulfill all the contract terms. A performance bond assures the developer that the proposed contractor and his surety will indemnify the owner to the extent fixed in the bond for any reasonable costs incurred in completing the project that exceed the agreed-upon price. A payment bond assures the developer that prompt payment will be made to those who supply the project's labor and material to the general contractor or his immediate subcontractors. Racial prejudice and the

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[6]Statement of Geno Baroni, in Financing of Inner City Housing, p. 67.

[7]Statement of Mel Stark in U.S. Congress, House of Representatives, Subcommittee on Banking and Currency, Housing and Urban Development Legislation - 1970, Hearings before the Subcommitte on Banking and Currency. (Washington, D.C.: Government Printing Office, 1970), p. 408.

frequent inexperience of minority contractors have often made it difficult for such contractors to obtain the necessary surety bonds.[8]

The Housing Development Corporation in Washington attempted to employ a minority group contractor in order to rehabilitate a 285-unit development, for which it had obtained an FHA 221(d)(3) mortgage.[9] After a nationwide search, it found only one black contractor who could be bonded for this $2.2 million Clifton Terrace rehabilitation project. This contractor was able to obtain a surety bond only after the Boise Cascade Company had signed an indemnification agreement with the surety companies involved releasing them from any loss which might be incurred under the bond.

OBTAINING INSURANCE

Another restraint to urban rehabilitation has been the difficulty of obtaining fire and vandalism insurance for the renovated properties. After the 1968 riots in Washington, the Urban Rehabilitation Corporation[10] in that city encountered problems in helping its new homeowners obtain or renew fire insurance policies. The insurance that was finally obtained was at an 800 percent increase over the previous rate paid. Moreover, the insuror demanded that a three-year policy be paid in advance rather than in three annual payments.

The SECD, although able to obtain fire and liability insurance at reasonable rates, was forced to pay extremely high premiums on its vacant buildings that were awaiting rehabilitation.[11]

FAIR Plans (Fair Access to Insurance Requirements)

The problem of obtaining fire insurance for rehabilitated properties in urban areas was alleviated by the 1968 Urban Property Protection and Reinsurance Act. The Act provided federal riot reinsurance for insurance companies that participated in state insurance pools providing insurance for urban homeowners and businessmen.

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[8]Statement of Joseph Debro in Housing and Urban Development Legislation - 1970, pp. 399-400.

[9]Ibid., p. 402.

[10]Statement of Geno Baroni, in Financing of Inner City Housing, p. 71. See also the President's National Advisory Panel on Insurance in Riot - Affected Areas, Meeting the Insurance Crisis of Our Cities. (Washington, D.C.: Government Printing Office, 1968).

[11]Whittlesey, South End Row House.

Although privately administered, the FAIR plans are regulated by state insurance regulatory bodies. Under a FAIR plan a property cannot be charged a premium rate or denied coverage unless it has failed to pass an inspection to determine its ability to meet reasonable underwriting standards; insurors cannot add a premium surcharge for strictly environmental (neighborhood) reasons.

Insurance losses under a FAIR plan are first paid out of current premiums and then out of reserves set up by the insurance companies themselves. If losses were to exceed these company premiums and reserves, then federal riot reinsurance premiums paid by the insurance companies would be applied. If even these payments were inadequate to cover losses, then the state government would have to pay an amount equal to a maximum of 5 percent of the total current premiums collected in the state. (This state payment would be financed by the levying of an excise or sales tax on all insurance premiums collected within the state.) If losses exceed all of the above, then the federal government would intercede by paying any outstanding insurance loans.

FAIR Insurance: Evaluation

Delays in Obtaining Insurance

Urban insurance problems were ameliorated but not eliminated by the implementation of the FAIR Program. As evidence of this the period immediately following the implementation of the state FAIR insurance programs was beset by frequent administrative difficulties.

In the Illinois FAIR plan, for example, there was considerable delays in obtaining FAIR insurance.[12] It took two months from the receipt of a FAIR insurance application before insurance was actually granted. The delays were caused by the problems inherent to the administering of a new program, compounded by a lack of manpower. With only two clerical workers in its employ at its inception, the Illinois FAIR plan developed a lengthy backlog of applications to be processed.

Inflexible Property Rating Standards

Property rating standards for insurance purposes were inflexibly interpreted by some of the companies participating in the Illinois FAIR plan. For example, the Maremount Foundation, having encountered difficulties in obtaining fire insurance for properties it was rehabili-

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[12]Illinois Department of Insurance, "Report on FAIR Plan" in U.S. Congress, House of Representatives, Committee on Banking and Currency, Subcommittee on Housing, Operation of the Urban Property, Protection and Reinsurance Program, Hearings Before the Subcommittee on Housing. (Washington, D.C.: Government Printing Office, 1969), p. 194, 196.

tating in Chicago, submitted applications for FAIR insurance.[13] Some of these applications were rejected on the grounds that the buildings to be rehabilitated were vacant, even though they would be occupied once rehabilitation was completed. Eventually Maremount was able to obtain insurance from the Illinois Fair plan but only after an exasperating delay.

And the Illinois experience is by no means unique. In New York, as in other states, urban homeowners faced delays in obtaining insurance because of the administrative difficulties attendant upon initiating the FAIR plan.[14] Thus even though the introduction of the FAIR program alleviated the major insurance problems faced by rehabilitation sponsors, problems still remain.

OTHER RESTRAINTS

Community Opposition

Potential sponsors may be wary of rehabilitating properties in many urban neighborhoods because of the past experience of many rehabilitation sponsors with neighborhood hostility and opposition. For example, the developers of the 24.5 million dollar BURP effort were accused by local groups of being interested only in high profits and of establishing a huge preserve for exploitation by absentee landlords.[15] Eventually, the BURP developers had to make costly concessions, such as hiring minority group workers who, although often inexperienced, had to be paid prevailing (union scale) wages under FHA regulations. These concessions did not entirely allay neighborhood hostility and suspicion as witnessed by the fact that BURP was plagued by a high incidence of vandalism.

Neighborhood opposition to a rehabilitation sponsor may be an expression of racial and social differences. Or it may be a protest against relocation problems created by the rehabilitation program. In most instances it would be prohibitively expensive if not physically impossible to rehabilitate an occupied building especially if extensive rehabilitation is attempted. Tenants have often been forced to leave to seek housing with lower rentals than those on the rehabilitated properties. The difficulties attendant upon forced relocation often cause neighborhood animosity. For example, in Philadelphia, Queens Village, Inc., (QVI) encountered strong local resistance

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[13] Ibid., p. 197.

[14] The Wall Street Journal, January 5, 1972.

[15] Keyes, The Boston Rehabilitation Program. See also Keyes, The Rehabilitation Planning Game: A Study in the Diversity of Neighborhood. (Cambridge: 1969).

because most of the tenants in the houses it had rehabilitated could not afford the post-rehabilitation rentals and so were forced to move.[16]

Tax Considerations

An owner may be deterred from rehabilitating his property because of the prospect that the restored property will be reassessed with a consequent property tax increase. Empirical studies corroborate the relationship between rehabilitation and raised property taxes. A survey of forty cities having Title I urban renewal rehabilitation projects revealed that in almost half of those responding property taxes on the renovated properties had increased from 10 to 40 percent.[17] George Sternlieb's study of tenement owners in Newark revealed that their fear of upward reassessment inhibited them not only from making improvements but from performing such routine maintenance tasks as painting the exterior of their properties.[18]

Some critics have charged that federal tax and depreciation policies encourage cosmetic repairs rather than rehabilitation since expenses for the former are immediately deductible as operating expenses for tax purposes whereas rehabilitation expenditures are not.[19] However, because of the many restraints to rehabilitation this tax differentiation has probably not appreciably discouraged investment in rehabilitation. And because of these restraints it is doubtful whether any revision of tax policies so that rehabilitation expenses were immediately deductible would result in an upsurge in rehabilitation efforts.

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[16]Neibanck and Pope, The Pitfalls of Non Profit Sponsorship, p. 39.

[17]Warren, "Conservation and Rehabilitation," See also Mary Ranson, Property Taxation and Urban Development. (Washington D.C.: Urban Land Institute, 1961.)

[18]George Sternlieb, The Tenement Landlord. (New Brunswick: Rutgers University Press, 1966), p. 220.

[19]See Jerome Pickard, Changing Land Uses as Affected by Taxation. (Washington, D.C.: Urban Land Institute, 1962.) p. 22-23. Patricia Leavey Hodge and Philip M. Hauser, The Federal Income Tax in Relation to Housing, prepared for the National Commission on Urban Problems. (Washington, D.C.: Government Printing Office, 1968.) p. 33-35. For an excellent overview of the influence of federal taxation policies on real estate investment see J. Warren Higgins, Impact of Federal Taxation on Real Estate Decisions, (Storrs: University of Connecticut, Center for Real Estate and Urban Economic Studies, 1971.)

Federal depreciation policies have also been implicated as a spur to ownership turnover, thereby dampening enthusiasm for rehabilitation.[20] This thesis is questionable, however, especially since the passage of 1969 tax act, with its numerous provisions reducing the tax advantages of rapidly depreciating and selling properties. (The mechanics of the federal depreciation policies and the effect of these policies on rehabilitation are discussed in depth in Appendix I).

Difficulties in Estimating Costs

Erroneous cost estimates have characterized many rehabilitation projects. Estimating becomes more difficult as the magnitude of rehabilitation decreases, and as more original mechanical and structural components are retained. Exterior appearances can prove misleading when the developer discovers that "plumbing and wiring may be held together with friction tape, fresh wallpaper may hide crumbling plaster and solid beams may be hollow shells."[21]

The rehabilitation cost estimates of Micah, almost invariably were lower than the actual costs.[22] In one instance, its estimated cost was $1,563 while the actual cost was $4,980 (See Exhibit 3-1). And in Boston both the SECD and the FHA underestimated the construction costs for properties that were rehabilitated by the former.

Restrictive Building Codes

Inflexible building codes frequently deter potential sponsors from rehabilitating properties. Such codes require that a building be rehabilitated according to the same construction standards demanded of new construction.[23] These standards are often far too stringent for rehabilitation, as evidenced, for example, by the Chicago building codes, which were described by one governmental housing official

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[20]Arthur Sporn, "Some Contributions of the Income Tax Law to the Growth and Prevalence of Slums," Columbia Law Review. Vol 59, No. 6, 1959.

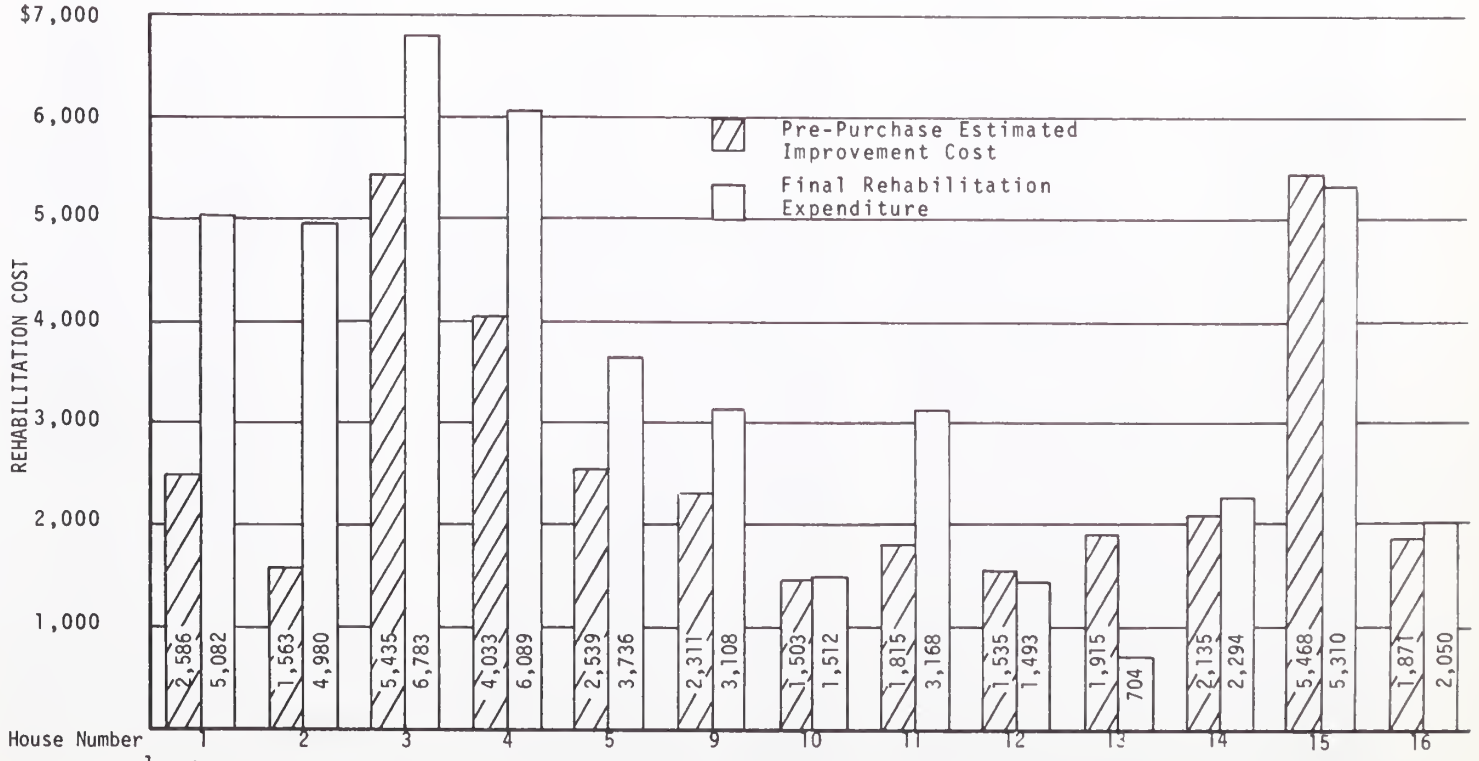
[21]Nash, Residential Rehabilitation p. 140.

[22]Kenower, MICAH: A Case Study in Housing Rehabilitation through Non-Profit Sponsorhip. pp. 44-75.

[23]A survey of cities with Title I urban revewal programs revealed that 57 percent of the municipalities replying required full compliance with their building codes before they would issue building permits for modernization or rehabilitation. See Warren "Conservation and Rehabilitation"

Exhibit 3-1

MICAH PROVIDENCE: ESTIMATED AND ACTUAL REHABILITATION COSTS[1]



[1]Estimated and Actual Costs for houses 6 through 8 were not available.

Source: John Kenower, Micah. A Case Study in Housing Rehabilitation Through Non-Profit Sponsorship, (Providence: 1969) pp. 44-75.

as excessive and detrimental to rehabilitation.[24]

Building codes frequently require that costly copper pipe be used in rehabilitation.[25] Such a stipulation makes little sense when the pipe's life expectancy exceeds that of the rehabilitated property itself.

Furthermore, attempts to comply with existing building codes are often frustrated by certain chain requirements within the codes themselves. For example, the following difficulties might accompany attempts to comply with a building code's required ratio of window to floor area. A building code may require the removal of the non-load-bearing wall that separates the dark entrance hall from the living room in many older houses. The floor area of the living room will then be increased, forcing the sponsor additionally to replace existing windows with larger ones in order to comply with the code's window-to-floor-area ratio.

Many rehabilitation efforts have encountered difficulties in complying with existing building codes. Specifically the SECD encountered problems concerning code requirements the width of stairways in its rehabilitated properties.[26] Existing stairways in the South End houses

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[24]See Warren Lehman, "Building Codes, Housing Codes and Conversion of Chicago's Housing Supply." University of Chicago Law Review. Vol 31, No. 1, Fall 1963, pp. 180-193.

[25]A survey by the Columbia Journal of Law and Social Problems of individuals experienced in both construction and rehabilitation revealed a general consensus that building codes did not significantly increase rehabilitation costs. The findings of this study, however, were based on only 55 interviews in two cities, and most of the literature on building codes has concluded that they unnecessarily increase new construction and rehabilitation costs. A forthcoming regression analysis by George Sternlieb and Lynne Sagalyn at the Center for Urban Policy Research, Rutgers University, on the impact of zoning, housing and building codes on construction costs should shed some light on this controversy. See "Building Codes and Residential Rehabilitation: Tilting at Windmills,: Columbia Journal of Law and Social Problems, Vol. 5, August 1969, pp. 88-89. George Sternlieb and Lynne Sagalyn Zoning and Housing Costs: The Impact of Land-Use Controls on Housing Price. (New Brunswick, Center for Urban Policy Research, Rutgers University, 1972.)U.S. Advisory Commission on Intergovernmental Relations, Building Codes: A Program for Intergovernmental Reform. (Washington, D.C.: Government Printing Office, 1966.)

[26]Whittlesey, South End Row House Chapter Two.

acquired by the SECD were thirty-six inches wide. Boston's Building Department Commissioner stipulated that a building permit would be issued only if SECD agreed to replace the stairways with ones that were forty-two inched wide--a prohibitively expensive undertaking. The SECD eventually was allowed to retain the thirty-six inch stairway but not before it had appealed to Boston's Board of Appeals.

FHA Rehabilitation Standards

The FHA rehabilitation requirements have also been criticized for their excessive stringency.[27] These high standards have frequently prevented rehabilitation because in order to meet them in high cost construction areas, e.g., New York City, a developer would have to exceed statutory ceilings on rehabilitation expenditures.

Even in cases in which financing or cost limitations are no problem, property owners or investors may not wish to effect the extensive rehabilitation required by the FHA. In a recent study George Sternlieb noted that "many owners who would be interested in securing funds for less dramatic rehabilitation shrink away from the level of indenture required to support FHA standards regardless of the interest rate."[28]

Restraints to Residential Rehabilitation: Conclusion

Few rehabilitation efforts have encountered all the problems enumerated in this and preceding chapter, but many projects have been impeded by some of the restraints described. Despite scores of governmental programs to facilitate rehabilitation, this housing strategy has often failed because of the many restraints against its implementation.

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[27]Urban America, Inc. The Ill-Housed. (Washington, D.C.: 1969).

[28]Sternlieb, "Abandonment and Rehabilitation," pp. 321-322.

Chapter IV

STRATEGIES TO FORCE REHABILITATION: HOUSING CODE ENFORCEMENT AND RECEIVERSHIP

In this chapter and succeeding ones our focus shifts to an examination of strategies to facilitate rehabilitation. This chapter focuses on two frequently proposed "stick" strategies for increasing the volume of rehabilitation -- effecting an intensive code enforcement program and establishing a receivership program.

EFFECTING INTENSIVE CODE ENFORCEMENT PROGRAM

William Nash's rehabilitation study emphasized that an environment conducive for rehabilitation would be created if municipal authorities vigorously enforced housing code provisions.[1] A decade after Nash's study, the President's Committee on Urban Housing similarly observed that rehabilitation could be effected only in conjunction with a concerted public campaign to enforce housing, health and other codes.[2]

Housing code enforcement is considered an essential spur to rehabilitation because its sanctions provide a "stick" to force landlords to improve their properties. Municipal code enforcement is expected to bolster an owner's attitude regarding the long term future of the neighborhood, thereby increasing the likelihood that he will rehabilitate his property. The President's Committee on Urban Housing concluded that code enforcement would instill confidence among private owners, investors lenders that neighborhood quality would improve.[3]

Several examples bear out these expectations. In the Harlem Park rehabilitation effort in Baltimore, code enforcement was used to force recalcitrant property owners to rehabilitate their properties; in fact, each rehabilitation area director was administratively responsible for enforcing Baltimore's housing code,[4] and each rehabilitation area office had a housing inspection division. Similarly the successful rehabilitation efforts in New Haven's Wooster Square and Dixwell neighborhoods were aided by strict enforcement of the municipal housing code.

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[1] Nash, Residential Rehabilitation, p. XXV

[2] U.S. President's Committee on Urban Housing, A Decent Home, p. 105-106.

[3] Ibid.

[4] McFarland and Vivrett, Residential Rehabilitation, p. 227-228.

Obstacles to Intensive Code Enforcement[5]

Legal Questions.

Recent court cases have restricted the use of housing code inspections. In Camara v. Municipal Court of the City and County of San Francisco[6] the United States Supreme Court held that a housing inspection was an intrusion upon an individual's rights to privacy and security, protected by the Fourth Amendment. Except where the householder's permission was forthcoming, the Supreme Court ruled that a search warrant must be obtained before a housing inspection could be made.

Inadequate Sanctions Against Housing Code Violators

Code enforcement programs have often been diluted because court sanctions against violators have been nominal only. Although many jurisdictions provide jail terms[7] for housing code violators, they seldom impose such sentences. Only forty of the 15,000 housing code offenders convicted in New York City in 1966 actually received jail terms.[8] And in a study of Ohio's housing enforcement program, the Ohio Legislative Service Corporation noted that jail sentences were almost never imposed.[9]

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[5]See George Castrataro "Housing Code Enforcement A Century of Failure in New York City," New York Law Forum Vol 14 p. 60-75. E. Carrington Boggan "Housing Codes as a Means of Preventing Urban Blight: Constitutional Problems," Wake Forest Intramural Law Review Vol 6. No. 2 March 1970. pp. 255-266. "Case Histories of Section 117 in Action" Journal of Housing No. 6 July 1970 pp. 306-309.

[6]Camara v. Municipal Court of the City and County of San Francisco 387 U.S. 523, 1967., See also See v. City of Seattle 387 U.S. 541, 87 S. Ct. 1737 (1967).

[7]California: imprisonment up to 6 months; Connecticut: 1st offense maximum 60 days, subsequent offenses up to 6 months; New York: 1st offense up to 30 days, subsequent offenses up to 6 months. See Frank Grad, Legal Remedies for Housing Code Violations, Prepared for the National Commission on Urban Problems, (Washington, D.C.: Government Printing Office, 1968) pp. 182-183.

[8]See Judah Gribetz and Frank Grad, "Housing Code Enforcement: Sanctions and Remedies" Columbia Law Review. Vol. 66, No. 7 November 1966, pp. 1254-1290.

[9]Ohio Legislative Service Corporation, Substandard Housing. (Columbus: 1969), p. 30.

The same laxity prevails in the matter of fines. New York City, for example, authorizes large fines for code violations[10] but, in practice, imposes quite small ones. In 1966, its average fine per case was $15, even though many cases included a number of code violations;[11] in 1971 the average fine was reduced to $10. per case.[12] Confronted with such small fines a property owner may find it cheaper to pay a series of small fines for repeated violations, treating these expenditures as a cost of doing business, rather than incur the larger expenditure needed to bring his property up to code standards.

Insufficient Inspectors

Code conformity may be difficult to enforce because of the shortage of housing inspectors. Detroit's Department of Buildings and Safety Engineering estimated that inadequate manpower was responsible for the three-to-five-year time span required to complete a cycle of inspections within its jurisdiction.[13] The personnel shortage is aggravated by inadequate recruitment of qualified individuals into careers in code enforcement. Former HUD regional administrator Judah Gribetz noted a need for a cadre of professionals to supply the skill and energy needed for successful enforcement.[14]

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[10] New York City: 1st offense up to $500; 2nd offense up to $1000. Los Angeles: up to $500. See Grad Legal Remedies for Housing Code Violations, p. 182.

[11] Grad, Legal Remedies for Housing Code Violations, p. 189.

[12] The New York Times, August 6, 1972. For a study of lax housing code enforcement in Chicago. See Metropolitan Housing and Planning Council of Chicago, Report of the Major Violations of the Housing Code 1950-1962.

[13] See Brett Dick and John Pfarr, "Detroit Housing Code Enforcement and Community Renewal: A Study in Futility" Prospectus: A Journal of Law Reform, Vol. 3, No. 1, December 1969, p. 61-90.

[14] Judah Gribetz, "Housing Code Enforcement in 1970: an Overview," The Urban Lawyer, Vol 3, No. 4, Fall 1971, p. 528.

Owner Reaction to Intensive Code Enforcement

Even if an intensive code enforcement program were effectively implemented, the results might be disappointing. Because an enforcement program is not directly aimed at alleviating the many rehabilitation restraints, it may prove ineffective as a strategy for increasing the volume of rehabilitation.

Confronted with an intensive code enforcement program, a property owner can follow a number of strategies.[15] If he chooses to retain ownership he can evade and delay enforcement, he can repair the property up to code standards, or he can improve it beyond code standards. He can sell the property to a private party. Or he can abandon his property. The effect of intensive code enforcement unfortunately has frequently been to encourage the choice of housing abandonment over the other possible owner strategies.

Scenario I Making Improvements

A property owner confronted with code enforcement can meet housing code minimum specifications or even exceed them. William Nash cites an example of one Philadelphia property owner who extensively rehabilitated his property when a code enforcement program forced owners of neighboring properties to make repairs.[16]

Many property owners, however, find it financially difficult to make even code repairs because of the extreme difficulty in obtaining conventional financing. If they do obtain a conventional loan, it will often have a high interest rate and a short term.

The governmental programs that can be used to finance code repairs are sometimes inadequate. The Federal 115 program is limited to families with extremely low annual incomes -- ($3000 or below); the 312 program restricts refinancing; Title I loans have a high interest rate; and few lenders make 203k or 220h loans. If owners cannot obtain a liberal loan to finance code repairs, they will often be unable or unwilling to make such repairs.

Scenario II Selling the Property

A property owner confronted by a code enforcement program could sell his property without making improvements. In many urban

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[15]See Jerome Rothenberg, Economic Evaluation of Urban Renewal (Washington, D.C.: The Brookings Institution, 1967), p. 244 and A. H. Schaaf, Economic Aspects of Urban Renewal: Theory, Policy and Area Analysis.(Berkeley: Real Estate Research Program, Institute of Business and Economic Research, University of California, 1960.)

[16]Nash Residential Rehabilitation, p. 109

neighborhoods, however, there may be a very weak market and demand for properties; in an intensive code enforcement area, they may be especially difficult to sell since any potential buyer will face the need to make immediate improvements. The tenants themselves may hesitate to purchase and rehabilitate their present dwellings because of the undesirability of owning properties in inner city neighborhoods.[17] To absolve themselves from the legal obligations of ownership, therefore, some property owners have sold their properties to a "straw man."

Scenario III Evasion

A strategy of evasion is, in fact, a widespread practice. If intensive code enforcement were implemented effectively such evasion could be sharply curtailed. Were the maximum court sanctions applied,property owners would find it expensive to continue violating the code.

Scenario IV Abandonment

Many urban property owners, pessimistic about the future value of their parcels, have chosen simply to walk away from their properties. Intensive code enforcement with its threat of stiff fines and even jail terms for violators may often be "the straw that broke the camels back" in leading owners to abandon their properties.[18] Philadelphia's code enforcement program for example, has been accused of "literally wiping out entire blocks where the intent of the city has been just the opposite -- to revivify them."[19]

It has been suggested that the menace of owner abandonment could be reduced if the municipality were to temper enforcement so it would not constitute an undue hardship on landlords. In other words, owners might be willing to rehabilitate their properties gradually if they had the assurance full and immediate code compliance was not demanded.

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[17]Sterlieb, "Abandonment and Rehabilitation", p. 316.

[18]See William Nachbaur, "Empty Houses: Abandoned Residential Buildings in the Inner City," Howard Law Journal Vol. 17 No. 1 1971 p. 39-43.

[19]William Grigsby, "Economic Aspects of Housing Code Enforcement," The Urban Lawyer Vol 3 No. 4 Fall 1971, p. 535.

Such a tempering strategy enforcement, however, may be politically difficult to implement because tenants may accuse the municipal government of "cuddling slumlords." Furthermore, there may be legal difficulties in enforcing only certain provisions of the housing code. Finally given the aforementioned depressed market and owner pessimism in many urban neighborhoods even a tempered enforcement of a housing code in such areas may increase the abandonment rate.

Removal of the geographical restrictions and income limitations of the 115 and 312 programs has also been suggested as a deterient to owner abandonment in the face of an intensive code enforcement program. Even if these financing programs were expanded, however, owners may be unwilling to bring their properties up to code standards because they fear a rise in their property taxes or because they cannot sustain continued maintenance and management of their properties.

RECEIVERSHIP

If an intensive code enforcement program failed to produce owner repairs, a municipality can petition the courts to appoint a receiver. This receiver would make those repairs necessary to bring the property up to code standards, defraying his costs with the rents he collects from the property.

A number of states, such as New Jersey, Connecticut and Massachusetts, authorize their courts to appoint receivers of properties with serious code violations. We shall examine the receivership programs in New York and Illinois, the two states with the most comprehensive receivership legislation.

Receivership Program in New York

In 1962 the New York State Legislature authorized New York City's code enforcement agency to appoint a receiver whenever a property owner refused to correct conditions that were health, safety or fire hazards.[20] New York City's Department of Real Estate, appointed as the receiver, would correct the code violations, using the rents it collects to reimburse its repair expenditures. In 1965, New York's receivership was strenghtened by making the cost of the receiver's repairs a lien on

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[20]New York Multiple Dwelling Law 309 as amended by L. 1962, C. 492. See also Charles Moerdler, Jacques Debrot, William Quirk, George Castrataro, and Edward Weidenfeld "A Program for Housing Maintenance and Emergency Repair," St. Johns Law Review Vol 17, No. 2 October 1967, p. 165-201.

the property's fee or title.

Receivership Program in Illinois

A 1965 amendment to Illinois' municipal code[21] provided that a municipality could petition the courts to establish a receivership in cases where property owners refused to make the required code repairs. Illinois' receivership procedure differs from New York's in that the receiver can be a private body. If the property's rental income were inadequate to cover code repairs, the receiver could issue promissory notes, called receivership certificates, which would serve as a first lien on the future income and title of the property.

Problems in Effecting a Receivership Program

Legal Problems

There has been a number of legal challenges to receivership statutes, especially those validating receivership liens or certificates as first liens superceding prior encumbrances. In 1937, New York City enacted legislation authorizing the municipal repair of housing code violations and giving the municipal agencies involved a first lien on the repaired properties. (Subordinate only to taxes and assessments for public improvements) These receivership statutes, however, were overturned by New York's Court of Appeals in 1937 as violations of the constitutional guarantee of due process.[22]

Today most courts have upheld the constitutionality of allowing a receiver's repair expenditure to be a first lien. In 1964 New York's Court of Appeals dismissed the argument that the first lien provisions of the state's 1962 receivership law were unconstitutional.[23] Similarly, a 1970 decision by the Illinois Supreme Court upheld the constitutionality of a receivership statute empowering receivers to issue certificates that would be first liens on the rentals and title of the

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[21] Illinois Revised Statutes, Chapter 24 11-31-2 (1969).

[22] Central Saving Bank v. City of New York 279 N.Y. 266, 18 N.E. 2d 151 (1938). See Comments, "Preference Liens for the Costs of Repairing Slum Property," Washington University Law Quarterly Vol. 1967 p. 144.

[23] In Re Department of Buildings 14 N.Y. 2d 291, 200 N.E. 2d 432, 439, 251, N.Y.S. 2d 441, 449 (1964). See Comment "Prior Lien on Rents and Profits Upheld as a Means of Financing Repairs, In Re Department of Buildings." Michigan University Law Review Vol 63, 1965 pp. 1304-1309.

properties they repaired.[24] Most of the legal challenges of receivership programs, then, have been unsuccessful.

Lack of Private Interest in Assuming Receivership

Lack of private interest stems from the following. Although a receiver's expenditures often constitute a first lien on the property's rents or title such a lien is a meaningful security[25] only if either the rental role or the value of the property exceeds or at least approaches the cost of repairs. A cumulative backlog of code violations may necessitate costly repairs far exceeding the rent role or the worth of a property. In such instances, because no private party would be willing to become a receiver, the municipality may be forced to act as a receiver and to absorb the repair costs if it wishes to repair such properties.

Financial and Political Problems of Public Receivership

A public receivership program frequently entails considerable municipal expense. Theoretically municipal expenditures for code repairs would be recouped from the rental role of the repaired properties. But in practice, municipalities effecting receivership programs have often recovered only a small percentage of their expenditures. For example, in the first 2.5 years of its receivership program, New York City recovered only approximately 10 percent of its 1.5 million dollars repair expenditure.[26] New York City's former Commissioner of the Department of Real Estate, Frank Lazarus, estimated that the average cost of removing violations from receivership buildings was $20,000 per building with "little hope of recovery."[27]

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[24] Community Renewal Foundation Inc. v. Chicago Title and Trust Company 44 Ill. 2d 284,255 N.E. 2d 908, 912-13 (1970) See Larry Goldberg "Receivers Certificates - Valid First Liens For Slum Rehabilitation," University of Illinois Law Forum Vol.1970 No. 3 p. 379-391.

[25] In Illinois the FHA has indicated that it will insure receivers' certificates constituting a prior lien on a property. If the FHA actually does so, receivers will find it much easier to secure loans for their repair expenditures. See Goldberg "Receivers Certificates - Valid First Liens for Slum Rehabilitation."

[26] Grad, Legal Remedies p. 47.

[27] Ibid., p. 206.

Furthermore, public receivers have often been criticized of spending either too much or too little for repairs and rehabilitation. New York City, for example, was criticized by both those who felt that the extent of rehabilitation should be guided solely by a building's need for rehabilitation and by those who felt that its major concern should be the recoupment of costs out of rents within a reasonable time.[28]

In summary although intensive code enforcement and receivership programs have often been advocated as "stick" strategies to increase the volume of rehabilitation, we have seen that in practice both of these strategies have been difficult to implement.

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[28] Ibid., p. 48.

Chapter V

STRATEGIES TO ENCOURAGE REHABILITATION: TAX INCENTIVES, IMPROVED FINANCING, AND UPDATING THE REHABILITATION TECHNOLOGY

This chapter evaluates the anticipated costs and effects of the following "carrot" strategies: offering tax incentives for rehabilitation investors, improving existing financing programs, and updating the rehabilitation technology.

OFFERING TAX INCENTIVES FOR REHABILITATION

Tax Incentives: An Overview

One frequently proposed strategy to encourage rehabilitation is the offering of liberal tax benefits to investors in rehabilitation. In To Seek A Newer World, Robert Kennedy proposed a comprehensive program of tax incentives to attract private investment to the rehabilitation of ghetto properties.[1] The President's Committee on Urban Housing also underlined the importance of tax incentives as an inducement to private investors[2] and, the National Association of Home Builders and other builder organizations have argued that liberal tax benefits are crucial in attracting private investors to rehabilitate urban properties.[3]

Tax Incentives: Specifics

In terms of the federal government's loss in revenues, tax incentives to encourage rehabilitation are often quite expensive. The costs of the tax incentive program provided for in Section 167 (K) of the 1969 Tax Act, for example, are considerable.

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[1]Robert Kennedy, To Seek A Newer World. (New York: Bantam Books, 1968).

[2]U.S. President's Committee on Urban Housing, A Decent Home. Pp. 81-84.

[3]Statement of the National Association of Home Builders in U.S. Congress, Senate, Committee on Finance, Tax Reform Act of 1969: Hearings before the Committee on Finance on H.R. 13270 to Reform the Income Tax Laws, September 26 to October 2, 1969, (Washington, D.C.: Government Printing Office, 1969), p. 3949.

Provisions of the Section 167(K) Program

Section 167(K) allows a taxpayer[4] to depreciate rehabilitation expenditures by a straight-line depreciation schedule with a five-year write off and no salvage value. The rehabilitation expenditure cannot be less than $3,000 or more than $15,000 per dwelling unit over two consecutive years. The rehabilitated units must be planned for occupancy by low to moderate income families whose income can be a maximum of 150 percent of the maximum income level for eligibility for local public housing.[5] (Appendix I explains the mechanics of taking straight line and accelerated depreciation)

The 167(K) accelerated depreciation allowed on rehabilitated housing is an extremely strong incentive, equivalent to a significant federal subsidy of the rehabilitation cost. Emil Sunley, Jr., an economist in the United States Treasury Department, has calculated that for a taxpayer in the 50 percent tax bracket, for example, the opportunity to switch from a 200 percent declining balance depreciation with a 20-year life[6] to a Section 167(K) depreciation with a five-year write off is equivalent in terms of an investor's after-tax return[7] to a 16.5 percent federal subsidy of the cost of the rehabilitated property.[8] In other words, if the federal government were to subsidize the rehabilitation of a $100,000 property by paying $16,500 of the cost but still required the rehabilitation sponsor to use a 200 percent declining

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[4]For a discussion of the operation of Section 167(K) See Lewis Kaster and Stanley Berman, Subsidized Housing Tax and Profit Opportunities in Selling and Buying, (New York: Practicing Law Institute, 1971.) And "Accelerated Depreciation for Housing Rehabilitation "Yale Law Journal Vol. 79 No. 5 April 1970, pp. 961-972.

[5]See Federal Register Vol.35 No. 150 August 4, 1970, pp. 12400-12404

[6]This is assumed as the most rapid depreciation of rehabilitated properties before Section 167(K) of the 1969 Tax Act was enacted.

[7]This does not take into account that the five-year section 167(K) depreciation is considered as preferred income and consequently is subject to the minimum tax provisions enacted by the 1969 Tax Act (section 56). See "Tax Breaks Not So Clear as They Might Appear," Journal of Homebuilding April 1972, p. 40.

[8]Sunley, "Tax Incentive for the Rehabilitation of Housing," pp. 381-394.

balance schedule with a 20-year life on his $83,500 investment ($100,000 $16,500) then a sponsor in the 50 percent tax bracket would be as well off in terms of his after-tax return as he would be when allowed to depreciate the property in five years.

Cost of the Section 167(K) Program

The 167(K) program is quite expensive in terms of the tax revenue that is lost. The Joint Committee on Internal Revenue Taxation estimates that the 167(K) accelerated-depreciation provisions would reduce federal revenues by 15 million dollars in 1970, 50 million in 1971, 100 million in 1972, 200 million in 1974 and rising to 330 million in 1979.[9] Emil Sunley's estimates are comparable to these projections. He estimates revenue losses of 12.5 million in 1970. 196.8 million in 1974, and 327.9 million in 1979 (See Exhibit 5-3).

Both of the above estimates were based on 1969 HUD projections of future rehabilitation activity, that have subsequently been revised downward. Using 1970 HUD projections of future rehabilitation volume as well as its projection of future per-unit rehabilitation cost, we have calculated the federal cost of the 167(K) program as ranging from 6.3 million dollars in 1970 to 200.7 million dollars in 1979 -- considerably lower than Sunley's projections. (See Exhibit 5-4. The methodology describing how these revenue losses were derived is in Appendix III) Yet even these lower cost estimates still constitute a considerable federal cost.

Tax Incentives: Further Drawbacks

In addition to their cost, tax incentives to encourage rehabilitation such as section 167(K) have been criticized as being wasteful because in many instances their benefits go to taxpayers for activities which they would have effected even in the absence of the tax incentive.[10] In other words, taxpayers which planned to invest in rehabilitation before the adoption of section 167(K) received a windfall benefit when this tax incentive was adopted.

Another criticism frequently leveled against the incentives is that they distort the choices of the marketplace and produce unneutralities in the allocation of resources. However, this criticism can be answered because it is precisely the objective of the tax incentive to encourage one set of activities as opposed to another.

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[9]U.S. Congress, Joint Committee on Internal Revenue Taxation, Revenue Estimates Relating to the House, Senate and Conference (Enacted) versions of H.R. 13270: Tax Reform of 1969 (Washington, D.C.: Government Printing Office, 1970), p. 11.

[10]Stanley Surrey. "Tax Incentives-Conceptual Criteria for Identification and Comparison with Direct Government Expenditures" in Tax Incentive Symposium conducted by the Tax Institute of America November 20-21, 1969 (Levington, Mass.: Heath Lexington, 1971), pp. 3-38.

Exhibit 5-1

COMPUTATION OF THE TOTAL INCREASE IN DEPRECIATION FROM SECTION 167(K)

(In Millions of Dollars and Based upon 1969 HUD Estimate of Future Rehabilitation Volume)

Depreciation allowed in year	Increase in depreciation allowed for qualified investment made in fiscal year										Total increase[2] in depreciation
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	
1970	25.0										25.0
1971	52.5	37.5									90.0
1972	57.3	78.8	43.8								179.9
1973	61.5	85.9	91.9	43.8							283.1
1974	65.4	92.3	100.2	91.9	43.8						393.6
1975	18.8	98.1	107.7	100.2	91.9	62.5					479.2
1976	-28.1	28.3	114.4	107.7	100.2	131.3	68.8				522.6
1977	-25.2	-42.1	33.0	114.4	107.7	143.1	144.4	81.3			556.6
1978	-22.7	-37.9	-49.1	33.0	114.4	153.8	157.4	170.6	81.3		600.8
1979	-20.4	-34.1	-44.2	-49.1	33.0	163.4	169.2	156.1	170.6	81.3	655.8
Qualified investment in rehabilitation[1]	500.0	750.0	875.0	875.0	875.0	1250.0	1375.0	1625.0	1625.0	1625.0[3]	

[1]Equals investment in rehabilitation housing moderate income families (See Appendix III)

[2]Equals aggregate increase in depreciation allowed for qualified investment in rehabilitation 1970-1979.

[3]Extrapolation of investment anticipated for 1968.

Source: Emil Sunley, Jr., "Tax Incentive for the Rehabilitation of Housing," The Appraisal Journal, July 1971, p. 390.

Exhibit 5-2

COMPUTATION OF THE TOTAL INCREASE IN DEPRECIATION FROM SECTION 167(K)

(In Millions of Dollars and Based upon 1970 HUD Estimate of Future Rehabilitation Volume)

Depreciation allowed in year	Increase in depreciation allowed for qualified investment made in fiscal year										Total increase[2] in depreciation
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	
1970	12.6										12.6
1971	26.5	16.1									42.6
1972	28.9	33.7	21.1								83.7
1973	31.1	36.8	44.2	29.0							141.1
1974	33.0	39.5	48.2	60.9	38.6						220.2
1975	9.5	42.0	51.8	66.4	81.2	41.1					292.0
1976	-14.2	12.1	55.1	71.4	88.5	86.4	42.2				341.5
1977	-12.7	-18.0	15.9	75.8	95.1	94.2	88.5	43.2			382.0
1978	-11.5	-16.2	-23.6	21.8	101.0	101.2	96.5	90.7	44.9		404.8
1979	-10.3	-14.6	-21.3	-32.5	29.1	107.6	103.7	98.9	94.4	46.4	401.4
Qualified investment in rehabilitation[1]	252.5	321.3	421.1	580.0	772.9	822.8	843.1	864.0	898.7	928.2[3]	

[1]See Exhibit 5-1

[2]See Exhibit 5-1

[3]Projected by multiplying the 1969 volume of rehabilitation of 68,500 units (extrapolation of volume anticipated for 1968) by a projected 1969 per unit rehabilitation cost of $13,550.

Source: See Appendix III

Exhibit 5-3

COMPUTATION OF THE ANTICIPATED FEDERAL COST OF SECTION 167(K)

(In Millions of Dollars and Based upon 1969 HUD Estimates of Future Rehabilitation Volume)

Year	Total Increase in Depreciation[1]	167(K) Federal Reserve Loss[2] if Rehabilitation Is Sponsored by Investors in the Following Tax Brackets: 50%[3]	60%	70%
1970	25.0	12.5	15.0	17.5
1971	90.0	45.0	54.0	63.0
1972	179.9	89.9	107.9	125.9
1973	283.1	141.5	169.9	198.2
1974	393.6	196.8	236.2	275.5
1975	479.2	239.6	287.5	335.4
1976	522.6	261.3	313.6	365.8
1977	556.6	278.3	334.0	389.6
1978	600.8	300.4	360.5	420.6
1979	655.8	327.9	393.5	459.1

[1]See Exhibit 5-1

[2]Equals the stated income tax bracket multiplied by the total increase in depreciation.

[3]In his calculations Emil Sunley assumed that most investors in rehabilitation would be in the 50 percent income tax bracket.

Exhibit 5-4

COMPUTATION OF THE ANTICIPATED FEDERAL COST OF SECTION 167(K)

(In Millions of Dollars and Based Upon 1970 HUD Estimates of Future Rehabilitation Volume)

Year	Total Increase in Depreciation[1]	167(K) Federal Revenue Loss if Rehabilitation Is Sponsored by Investors in the Following Tax Brackets: 50%[2]	60%	70%
1970	12.6	6.3	7.6	8.8
1971	42.6	21.3	25.6	29.8
1972	83.7	41.9	50.2	58.6
1973	141.1	70.6	84.7	98.8
1974	220.2	110.1	132.1	154.1
1975	292.0	146.0	175.2	204.4
1976	341.5	170.8	204.9	239.1
1977	382.0	191.0	229.2	267.4
1978	404.8	202.4	242.9	283.4
1979	401.4	200.7	240.8	281.0

[1]See Exhibit 5-2

[2]Appendix III assumes this tax bracket in determining the cost of Section 167(K).

Tax incentive programs to encourage rehabilitation can also result in inequities. The federal income tax, which is a progressive tax, is perverted by Section 167(K) and similar tax provisions[11] which enable high income individuals to prevent their incomes from being taxed at prevailing income tax rates. Furthermore, even the prospect of a tax shelter may be an insufficient incentive for high income individuals to invest in uncertainty-ridden urban rehabilitation.

IMPROVING REHABILITATION FINANCING

Reducing the Time and Expense of Mortgage Processing

Delays in approval of governmental rehabilitation programs could be reduced in the following ways: providing a mortgage preprocessing service; simplifying the architectural exhibits needed for approval; and delegating more authority to local bodies, such as local FHA offices.

Preprocessing

In the Harlem Park rehabilitation effort, mortgage processing was facilitated[12] because the Harlem Park staff was instructed by the FHA in preprocessing FHA applications. This procedure freed the property owner from cumbersome paper work and meant that the Harlem Park office could provide a "one-stop" service for property owners interested in rehabilitation. Most property owners interested in rehabilitation, however, do not have access to the preprocessing service that was available in Harlem Park and providing such a service in other neighborhoods would reduce some of their time delays in FHA mortgage processing.

Simplifying the Required Architectural Exhibits and Allowing Performance Standards

On most FHA projects, the sponsor is required to present an extremely detailed series of architectural exhibits. And frequently, protracted negotiations between the FHA's and sponsor's architects increase the time needed for approval as well as the expense. If the FHA were to allow more flexible rehabilitation standards, sponsors would experience

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[11]See Robert Robin "A Taxpayers Choice Incentive System: An Empirical Approach to Community Economic Development Tax Incentives," Law and Contemporary Problems, Vol. 36, No. 1 Winter 1971, pp. 99-118. and Stanley Surrey "Federal Income Tax Reform: The Varied Approaches Necessary to Replace Tax Expenditures with Direct Government Assistance," Harvard Law Review, Vol. 84, No. 2, (December, 1970), pp. 352-408.

[12]McFarland and Vivret, Residential Rehabilitation, pp. 14-15.

less delay and frustration in trying to obtain variances from the FHA rehabilitation standards.

In BURP, processing was facilitated by allowing the sponors to submit fewer and simpler architectural exhibits.[13] Furthermore, because the FHA's architect and the sponsor's architect visited the rehabilitation site together, they were able to make on-the-spot decisions. Another facilitating factor was the FHA substitution of general rehabilitation standards for its previous strict material specifications.[14]

Both of the abovementioned FHA procedures, if adapted to other rehabilitation efforts, could shorten the processing period just as they shortened BURP's. It is unlikely, however, that the FHA will continue to use these procedures because of the criticism it has received for doing so. In BURP, the Tenant Association of Boston and other groups, criticized the FHA for not specifying standards to be followed by sponsors and for giving sponsors excessive leeway.

Similarly, to expedite rehabilitation in the 44 million dollar Philadelphia "used house" rehabilitation program, which was funded by HUD and administered by the Philadelphia Housing Authority (PHA), both HUD and the PHA issued only broad rehabilitation specifications. They also reduced the required number of architectural drawings to be submitted by the sponsor. And rather than estimating rehabilitation costs for individual houses, they established standard rehabilitation prices, e.g., a contractor rehabilitating a one-family house with three bedrooms would receive $10,500.[15]

A stinging report[16] by the United States Comptroller General accused both HUD and the PHA of lax administration, criticizing their "vague" rehabilitation standards and inadequate inspection of the rehabilitated housing.

The FHA's experience in Boston, Philadelphia and other localities where it deviated from standard procedures, will undoubtedly make it extremely

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[13] Keyes, Boston Rehabilitation Program p. 32.

[14] Ibid., p. 33.

[15] Comptroller General of the United States, Report to the Congress: Problems in the Program for Rehabilitating Housing to Provide Homes for Low Income Families in Philadelphia, Pennsylvania (Washington, D.C.: Government Printing Office, 1971), p. 8.

[16] Ibid., p. 2.

reluctant to continue innovating.

Greater Local Autonomy

The processing of FHA mortgages has sometimes been hampered because the lack of authority of local FHA offices has necessitated their constant referral of decisions to regional offices; traditionally the regional office makes the final review of the project feasibility of all mortgage applications submitted through the local office. In BURP, processing time was shortened, by giving the local FHA office the authority to process the rehabilitation mortgages without regional review. However, the FHA may not be willing to standardize this time-saving structure for fear of renewed criticism for laxity.

Increasing Mortgage Interest Rate and Amount

The problem of insufficient lender interest in FHA and state-insured rehabilitation mortgages can be alleviated by raising the interest rates so that they are competitive with those of private enterprise. The 1970 and 1971 Housing Acts did, in fact, give the Secretary of HUD the authority to establish interest rates consistent with market conditions on all FHA mortgages and loans.

Similarly, there should be an increase in the maximum amounts for rehabilitation mortgages because in some areas, e.g., New York City, these amounts are often below the cost of rehabilitation up to FHA specifications. Congressional support for such a raise in mortgage amounts is unlikely, however, because current amounts already approach the cost of new construction in many parts of the country. In 1971, for example, in high cost areas, a 235J mortgage sometimes ran as high as $21,000, whereas the 1971 national production costs for new private housing was only $19,925.[17]

UPDATING THE REHABILITATION TECHNOLOGY

The current head of the Federal Project Rehabilitation, M. Carter McFarland, has suggested that "we need to apply technology and systems engineering to make the rehabilitation process faster and less costly."[18]

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[17]Rural Housing Alliance, Low Income Housing Bulletin, September 1971.

[18]M. Carter McFarland, "Financing Rehabilitation through Federal Housing Acts," Journal of the Building Research Institute, January-March 1968, p. 42.

In his evaluation of potential rehabilitation programs for New York City, Frank Kristof suggested the use of such management devices as PERT (Program Evaluation Research Technique) to facilitate rehabilitation.[19] More specifically, others have suggested that rehabilitation costs might be reduced if the following procedures were instituted: systems engineering, prefabrication, off site assembly, standarized operating procedures and utilizing innovative construction materials.

Systems Engineering

A systems-oriented Critical Path Method construction schedule has been utilized in new construction for a number of years. Such as approach may not be applicable to rehabilitation, however, because of the inherent uncertainties in rehabilitation work. For example, a sponsor is often unable to know exactly what mechanical or structural components need replacement or repair until actual rehabilitation has begun. Furthermore, most rehabilitation has been done by small contractors, who are often unfamiliar with systems engineering. Finally, the cost savings, if any, on a small project with a small contractor may very well be neutralized or negated by the overhead incurred in implementing systems engineering.

Prefabrication and Offsite Assembly

Theoretically, prefabrication and offsite assembly should reduce the costs of rehabilitation efforts. Such savings result, however, only if a large number of identical preassembled units can be utilized. But because rehabilitation, is confronted with many variations in house size and floor plan, such prefabrication may be worthless, if not impossible.

The RRDP in New York City, which made extensive use of offsite assembly, had extremely high costs. What's more, its preassembled bathroom and kitchen cores often did not fit the space alloted for them, because of variations in room height and size in the project's old-law tenements.[20]

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[19]Frank Kristof, Large Scale Residential Rehabilitation, p. 35.

[20]Institute of Public Administration, Rapid Rehabilitation, p. 29. The lack of success of mass production in the RRDP has been disputed. In evaluating the RRDP, Richarf Wickert of Conrad Engineers of New York City has stated that one of the major factors in the success of the RRDP was the use of prefabricated, mass-produced components. See Richard Wickert, "Rapid Rehabilitation" in Eugene Morris and Henry Halprin's Urban Renewal and Housing (New York: Practicing Law Institute 1969). p. 148.

Standardizing the Rehabilitation Procedure

Similarly, standardizing rehabilitation by replacing or repairing the same components in each house may also be impracticable.Nathan Beavers, who successfully rehabilitated properties in Cleveland's Hough area cited the unfeasibility of wholesale gutting as compared to selective attempts to salvage plaster walls. He explained that for economic reasons the decision to gut should depend on the condition of the walls in question which can differ not only from one building to another but within the same building.[21] Beavers added that it would be hard to standardize the rehabilitation procedure because:

> This is a play-it-by-ear business. It needs its own kind of specialists with new job definitions. It needs dry-wall specialists who can go over old walls for thickness to decide what length nails to use and whether screws might be better. It needs flooring specialists who can repair broken and warped subflooring piece by piece. It needs framing specialists who know how to brace old walls in dozens of different ways without messing up the architect's plans.[22]

This view is corroborated by one BURP contractor who noted that any effort to standardize prodection overlooks the marginal differences among the buildings, which may have to be taken advantage of in order to make a profit."[23]

Innovative Construction Materials

Innovative construction materials have also been suggested as a means of reducing rehabilitation costs and thereby increasing its volume. Among the scores of such in use are: self-studding or partially pre assembled wall systems, factory-finished vinyl-covered gypsum board, plastic plumbing, molded stackable plastics and sprayed urethane foam for insulation purposes.[24] Their advantages are many. For example,

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[21] H.Clark Wells "Materials and Equipment Innovation in Housing Rehabilitation," in Innovations in Housing Rehabilitation, p. 95.

[22] Ibid.

[23] Keyes, Boston Rehabilitation Program, p. 138. Another BURP contractor felt that it was best to systematize rehabilitation in order to eliminate the need for separate decisions about what must be done in each property.

[24] See Joseph Newman, "Rehabilitation Techniques: The Current State of the Art," in Innovations in Housing Rehabilitation. See also Wells, "Materials and Equipment" in Innovations in Housing Rehabilitation.

plastic pipe, in addition to costing less than copper piping, can be fitted together much more easily and is less likely to be stolen by vandals during rehabilitation. However the use of many of the construction materials mentioned above, may be prohibited by restrictive local building codes.

Even if they were allowed, the new rehabilitation materials and procedures might have only a small impact on reducing monthly rentals. Robert Whittlesey, the executive director of the SECD, noted that if the SECD's use of a new material would reduce the cost of plaster materials by 50 percent, it would reduce the projects' monthly rentals only $1.00.[25] Similarly, if the costs for plumbing using new technology or materials were reduced by 25 percent there would be only a $1.00 decrease in the monthly rental.

Conclusions:

Given the host of restraints to rehabilitation, it is doubtful whether even substantially reduced costs resulting from improved technology would create an upsurge of investment in rehabilitation. Although the strategies described in this chapter have often been touted as significant inducements to rehabilitation, in practice, they may be both expensive and difficult to effect because of political or practical considerations.

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[25]See Robert Whittlesey in Innovations in Housing Rehabilitation, p. 87.

Chapter VI

STRATEGIES TO FACILITATE REHABILITATION: ALLEVIATING PROBLEMS OF PROPERTY ACQUISITION, MANAGEMENT AND MAINTENANCE, INSURANCE AND COMMUNITY OPPOSITION

The "stick" and "carrot" strategies previously evaluated are aimed respectively at forcing and encouraging rehabilitation. This chapter evaluates strategies that would facilitate rehabilitation by removing obstacles to its implementation. It addresses the following trouble spots: difficulties in acquiring properties, management and maintenance problems, insurance inequities, and community opposition.

ALLEVIATING PROPERTY ACQUISITION PROBLEMS

Adopting a Torrens Title System

There are presently three major title record systems: (1) a deed system; (2) a deed system requiring that all land-related documents be recorded in a government office; and (3) the Torrens System.[1]

Under the deed system, a vendee (purchaser) examines the ownership documents produced by the vendor (seller); the former can only assume important documents have been included for his scrutiny. The second system, although it eliminates some of the uncertainty of the deed system, still leaves some loopholes, e.g., some land deeds may not have been recorded or may not have been transferred because of improper delivery of the deed. Uncertainties such as these necessitate the undertaking of an expensive title search.

The difficulty and expense of clearing title on inner-city properties could be lessened by adoption of the Torrens title system. Under this system, the land title itself is registered under government control, rather than the documents or deeds evidencing title.[2] The property owner is given a certificate of title on which are recorded all subsequent transactions creating interests or encumberances. Should there be a title transfer, a new certificate is issued indicating the past liens on the property. Title is, therefore, readily ascertainable by examining the government-issued certificate. And since the title is registered, there is no uncertainty about it and therefore no need for title searches. Furthermore, in the Torrens system, the government usually indemnifies individuals who had relied on the state-warranted title that later proved erroneous.

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[1]Richard Laugesen, "The Torren Title System in Colorado," Dicta, vol. 39, January-February 1967, p. 41. For a discussion of the origins of the Torrens system see Ted Fiflis, "Security and Economy in Land Transactions - From Scotland and England," Hastings Law Journal, vol. 20, 1968-69, pp. 197-207.

[2]Laugesen, "Torrens Title System," p. 40.

A number of states and municipalities have adopted this system. A Torrens system was established in Chicago after the fire of 1871 had destroyed many land records. Los Angeles, Boston, Cleveland and St. Paul also have Torrens registration systems. Colorado's Torrens Registration Act includes an indemnification provision.

Widespread adoption of the Torrens system would alleviate many of the problems that accompany the acquisition of land with uncertain title. Its adoption, however, does not guarantee the elimination of title uncertainties because the system may not be used; jurisdictions that have a Torrens system often use it only infrequently. Its disuse is a result of opposition by both title insurance companies and lawyers, as well as of ignorance on the part of property owners.[3] This opposition may be hard to overcome and its presence reduces the Torrens system to a mere palliative for the problems of clearing title.

Simplifying the Tax Foreclosure Process

Tax-delinquent properties could be acquired more expeditiously if the tax foreclosure process were simplified and shortened. Such streamlining would be especially critical in cases where tax-delinquent buildings have been abandoned because such properties might be quickly vandalized to the extent that rehabilitation would not be economically feasible. Some of the following policies could expedite the foreclosure process: adopting an *in rem* foreclosure method; and most importantly, adopting one of the proposed model foreclosure laws.

Adopting *In Rem* Foreclosure

One strategy to facilitate foreclosure would be municipal adoption of an *in rem* foreclosure procedure which would make for cheaper and more expeditious municipal foreclosure of tax-delinquent liens. These foreclosed properties could then be sold to rehabilitation sponsors.

In 1951 Newark's Corporate Counsel, Charles Handler, estimated that the city's *in rem* foreclosure was appreciably cheaper and could be effected more rapidly than the city's *in persona* proceedings.[4] A 1972 study by the Center for Urban Policy Research at Rutgers[5] University indicated that *in rem* foreclosure had remained considerably

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[3] *Ibid.*, p. 43.

[4] Charles Handler, "In Rem Foreclosures in New Jersey," *Municipalities and the Law in Action*, 1951 edition, p. 294.

[5] Sternlieb and Burchell, *The Tenement Landlord Revisited*.

cheaper than the *in persona* process. The legal cost of the former was $100 while the latter cost $1,000. If one were to include the costs incurred to keep the tax lien certificate current (payment of delinquent property taxes through the time of foreclosure of the tax lien certificate), then the *in rem* foreclosure would cost $4,600 from the date of tax delinquency as opposed to $6,000 for the *in persona* procedure. (See Exhibits 2-4 and 6-1).

Present *In Rem* Foreclosure Statutes: Evaluation

Existing *in rem* statutes are often "an ambulance service for a deceased patient" because an *in rem* foreclosure usually cannot be instituted until after four years of tax delinquency. By the time this delinquency period has expired, it may be too late, for the property may have been vandalized beyond repair, gutted by fire and fit only for demolition. What use is an expeditious *in rem* method if it can be applied only after a lengthy tax delinquency period?

Use of the *in rem* procedure shortly after taxes have become delinquent would facilitate property acquisition; a recommendation to this effect was made in 1935 by the Committee on a Model Tax Collection Law of the National Municipal League.[6] (The foreclosure recommendations of the Committee are found in Appendix II.)

Adopting the National Municipal League's Model Foreclosure Law

Both the *in rem* and *in persona* procedures recommended by the National Municipal League would expedite the foreclosure process. Using Newark as an example, if a property owner in that city had stopped paying taxes in November, 1969, his property could be purchased[7] by a rehabilitation sponsor at a tax sale held in October 1970[8]; the

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[6]See Report of the Committee on a Model Tax Collection Law of the National Municipal League *National Municipal Review*, May 1935, pp. 298-305. For a discussion of the National Municipal League's model tax foreclosure law see Roger Traynor, "The Model Real Property Tax Collection Law" *California Law Review*, vol. 24, 1935-36, pp. 98-107.

[7]Actually, the property itself is not sold; what is sold is a tax sale lien certificate, which can be foreclosed after a two-year period of redemption.

[8]According to the National Municipal League's Committee on a Model Tax Law the sale of real property for delinquent taxes is held on October 1st following the end of the fiscal year in which taxes became delinquent. Our example assumes that the fiscal year in which taxes for 1969 were due ends June 30, 1970 and consequently the earliest date for a tax sale is October 1, 1970.

Exhibit 6-1

IN REM FORECLOSURE OF A NEWARK PROPERTY WITH AN ASSESSED VALUE OF $15,000

Date	Tax Delinquency Sale and Foreclosure Actions	Cost to Lien Holder (Newark)
November 1969	Property becomes delinquent	
November 1971	Tax sale is held[1] and Newark acquires tax title lien. Newark's loss of outstanding 1970 and 1971 taxes	$2,200
November 1971 - November 1973	Newark must wait until November 1973 - 48 months after the date of delinquency before it can effect *in rem* foreclosure	
	Newark's loss of 1972 and 1973 outstanding taxes	$2,200
November 1973 - December 1973	*In rem* foreclosure at cost of $100 in fees and one month taxes	$ 200
		$4,600

[1] See Exhibit 2-4.

Source: George Sternlieb and Robert Burchell, *Residential Abandonment: The Tenement Landlord Revisited* (New Brunswick, Center for Urban Policy Research, Rutgers University, 1972).

property could either be foreclosed immediately if the owner had still not paid back taxes, or in October 1971 after the period of redemption had expired. Under New Jersey's present *in persona* foreclosure process, a property that became tax delinquent in November 1969 cannot be foreclosed until May 1974. (See Exhibit 6-2).

Adopting Foreclosure Procedure Recommended by Walter Fairchild

In 1938 Walter Fairchild[9] proposed an *in rem* procedure that could be effected one year after February 1 following the year in which the tax was levied. Fairchild suggested that the municipal petition for a judgment calling for a tax sale would itself be an *in rem* action against the land. He allowed for a period of redemption but only until the tax sale was held. (Fairchild's foreclosure recommendations are found in Appendix II).

Fairchild's recommendation would dramatically shorten the tax foreclosure procedure. For example, if a Newark property owner were to have stopped paying taxes in November 1969, the city could have foreclosed his property through an *in rem* procedure in February 1971 and could have then offered to sell the foreclosed property to a rehabilitation sponsor. Under New Jersey's present *in rem* foreclosure procedure, a property that became tax delinquent in November 1969 cannot be foreclosed until December 1973. (See Exhibit 6-2).

Modifying Existing Tax Foreclosure Procedures: Evaluation

Attempts to modify the existing tax foreclosure laws have often been defeated. In Boston an effort in 1969 to shorten the redemption period of tax-delinquent properties to six months was opposed by real estate interests and was defeated. Frank Kristof proposed that New York State adopt legislation permitting cities to assume title to any building that had been tax delinquent for at least one year, if after notifying the property's owner of the impending foreclosure action, no one had stepped forward to assume responsibility for the structure[10]; his proposal was rejected by the New York State Legislature.

Modifying the existing tax foreclosure procedures is analagous to adopting a Torrens title system: rationally, both strategies have merit yet both have been, and in all likelihood will continue to be, opposed by groups benefiting from the existing cumbersome title transfer and tax foreclosure laws.

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[9]Walter Fairchild, "Tax Titles in New York State," *Brooklyn Law Review*, Vol. 8, 1938-1939, pp. 73-80.

[10]Schreiberg, "Abandoned Buildings," pp. 214-215.

Exhibit 6-2

OPERATION OF TWO MODEL FORECLOSURE LAWS IN NEW JERSEY

	Present New Jersey *In Persona* Foreclosure Procedure	National Municipal League's *In Persona* Foreclosure Procedure	Present New Jersey *In Rem* Foreclosure Procedure	National Municipal League's *In Rem* Foreclosure Procedure	Walter Fairchild's *In Rem* Foreclosure Procedure
Property that became tax delinquent on	November 1969	November 1969	November 1969	November 1969	November 1969
Could be foreclosed by	May 1974	October 1971[1]	December 1973	October 1971[1]	February 1971

[1]Tax delinquent property could be foreclosed immediately after tax sale held on October 1970 if property owner had persisted in nonpayment of taxes.

Sources: Report of the Committee on a Model Tax Collection Law of the National Municipal League, National Municipal Review, No. 5, 1935, pp. 298-305 and Walter Fairchild, "Tax Titles in New York State," Brooklyn Law Review, Vol. 8, 1938-39, pp. 73-80.

ALLEVIATING MANAGEMENT AND MAINTENANCE PROBLEMS

Adopting Sanctions Against Tenant Violators of the Housing Code

Among the several possible strategies to alleviate maintenance problems in rehabilitated properties is municipal adoption of sanctions against tenant violators of the housing code. Tenants currently have few legal repair or maintenance responsibilities in jurisdictions having many multiple dwellings. For example, under New York's multiple dwelling law, the landlord is legally responsible for almost all repairs and maintenance[11] while tenants have only a few obligations, such as keeping fire escapes clean. In such jurisdictions, the maintenance problem might be reduced by the "stick" approach of enacting code sanctions against destructive tenants.

However, the enactment of code sanctions may have little effect because such sanctions are rarely enforced. This fact is substantiated by Howard Powell's study of code enforcement practices in twenty-four cities.[12] Although most of the cities sampled by Powell had housing code provisions for sanctions against tenant violators, many admitted that there was little enforcement of these sanctions.

Inadequate enforcement is traceable to several factors, both political and practical. In his report to the National Commission on Urban Problems, Frank Grad noted that enforcement may have negative political repercussions.[13] Political pressure in the form of opposition by militant tenant organizations was responsible for the eradication of a provision in the 1967 New York City housing maintenance code that would have allowed a landlord to defend himself by impleading the tenant.

There have also been practical obstacles to enforcement. In the late 1960s the Camara and See cases established that a housing code inspection constituted a search in the context of the Fourth amendment and that in the absence of a householder's acquiescence, search warrants were therefore required. At present, inspections are conducted without search warrants, the process depending on tenant acquiescence to inspection of their apartments. If tenant code sanctions were to be strictly enforced, tenants would undoubtedly

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[11] See Grad, Legal Remedies for Housing Code Violators, pp. 86-88.

[12] Powell, Survey of Housing Code Enforcement Practices in Twenty-four Medium-Sized American Cities, (Cincinnati: Better Housing League of Greater Cincinnati, 1965).

[13] See Grad, Legal Remedies for Housing Code Violators, pp. 88-90.

refuse to allow inspectors to enter their dwellings, thereby necessitating the cumbersome and time-consuming process of obtaining individual warrants for each inspection.

Furthermore, because a "stick" approach does not attack the real causes of tenant destructiveness, it cannot be expected to be an effective deterrent. The root of the problem can be found in racial tension between tenant and landlord, and the difficulties accompanying adjustment from rural to urban life. Against such social forces, a threatened fine or even a jail term may have little deterrent value.

Establishing Centralized Management and Maintenance Services

To alleviate maintenance problems in inner city areas, former New York senator, Charles Goodell, proposed the establishment of local management corporations. His bill, S-4181 (1970), would have provided federal grants to housing management administrations (HMAs). (S-4181 was not enacted)

The HMA could be either a public or private nonprofit or limited-profit body, organized under state law. Equally represented on its governing board would be tenants, members of the local community and local property owners.

The HMA would be responsible for providing economical, efficient management and maintenance services on a fee basis for private, low- and moderate-rental housing in neighborhoods where needed. Specifically, the HMA would handle bookkeeping, screen prospective tenants, collect rents, purchase necessary supplies, pay interest, taxes and insurance, and make repairs.

Goodell envisioned certain economies of scale because of the scope of the HMA's neighborhood-wide operation, e.g., employment of full-time maintenance crews and bulk purchases of building materials, fuel and other supplies. It was hoped that these economies would enable the HMA to provide cheaper management and maintenance services than those previously used by local property owners.

Recognizing that the HMA's might not be initially profitable or even economically self-sustaining, Goodell included provisions for a federal subsidy. For the HMA's first six months of operation, the Secretary of HUD would be authorized to make grants to defray reasonable and necessary expenses incurred in its organization and operation. Periodic federal payments could also be made to subsidize operating expenditures during its first three years. The continuation of the subsidy would depend on demonstration of its potential for self-sustaining operation.

Such a program would be difficult to implement. First of all, there may be difficulty in attracting nonprofit or limited-profit groups. The latter may feel that the economic uncertainties and physical

danger of managing slum properties far outweigh the limited allowed profit. And although some nonprofit groups may form HMA's, it is problematical whether enough will, in view of the problems of inner city property maintenance.

An even greater impediment would be the HMA's inability to attract enough skilled repairmen due to the already-noted shortage of such workers. Furthermore, the federal expense of subsidizing the HMA plan may prove even higher than anticipated. Goodell's bill stipulated a maximum federal appropriations of 10 million dollars and a maximum individual HMA subsidy period of three years. However, once the HMA program were adopted, it might have its own momentum. For example, it would be highly unlikely that the government would end subsidy payments to a successfully-operating HMA that nevertheless required financial assistance beyond the allotted three years.

Screening Tenants

Vigorous screening of prospective tenants is one way to prevent maintenance problems. Careful homeowner screening (as will be described in Chapter XI) was one reason for the success of the CHIP rehabilitation effort in Camden, New Jersey. In the Jose DeDiego Beekman rehabilitation project in New York City, tenants themselves established tenant selection standards.[14]

Although screening will not eliminate all troublesome tenants, in most instances it will, by reducing their ranks, alleviate maintenance problems.

Employing Tenants

Hiring tenants or local residents to maintain rehabilitated buildings is another possible way to attack maintenance problems. Their familiarity with the building and its occupants enable such tenant-managers to deal directly and persuasively with troublemakers. An added psychological edge is that the tenant-worker has an economic stake in the success of the rehabilitation effort.

There are pitfalls in this strategy, however. It has frequently been difficult to recruit tenants for maintenance jobs. The SECD, for example, found that "involving tenants in the operation and management of the (rehabilitated) housing is neither an easy task nor does it happen quickly."[15]

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[14] The New York Times, February 13, 1972.

[15] Whittlesey, South End Row House, p. 7.

Notwithstanding these difficulties, many rehabilitation projects have scored successes with this employment strategy. Neighborhood residents have been successfully employed to manage buildings in the Beekman Hill rehabilitation project in the Bronx; and the SECD, after overcoming initial tenant apathy, eventually was able to employ tenants as management aides.

Establishing Housing Clinics and Neighborhood Aide Programs

In contrast to the "stick" approach of code enforcement, a housing clinic approach is educational - it attempts to both explain to the tenant the benefit of careful apartment maintenance and to demonstrate effective housekeeping techniques.

A number of cities have adopted housing clinic programs. Baltimore, eschewing fines for tenant housing code violators, often refers them instead to housing clinics, where they are shown the importance of good housekeeping. Camden's revised housing code requires compulsory clinic attendance for persistent code violators.

A similar educational approach involves the hiring of neighborhood residents to instruct tenants on the need for, and mechanics of, good housekeeping. Such a program was established in Chicago, using paraprofessional health education aides, whose salaries are paid by the United States Public Health Service.[16]

Tenant clinics and neighborhood aide programs may alleviate those maintenance problems caused by the tenants' ignorance of their housekeeping responsibilities. But the impact of these programs may be only negligible because the causes of tenant vandalism, e.g., landlord-tenant racial and social antipathy are often deep-rooted and vandalism by local drug addicts may be almost impossible to stop.

ALLEVIATING INSURANCE PROBLEMS

Securing Compliance with the FAIR Administrative Regulations

To correct some of the defects in the FAIR program, in 1970 HUD established new administrative regulations.[17] Many problems

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[16]United States Department of Health, Education and Welfare Public Health Service, Health Education Aides - A Method for Improving the Urban Environment Tested in Chicago, Illinois. (Washington, D.C.: Government Printing Office, 1968).

[17]Federal Register, 35 F.R. 5817-21, April 9, 1970.

encountered by rehabilitation sponsors in obtaining insurance could be eliminated if HUD were to put teeth in these regulations by threatening cancellation of federal riot reinsurance of any FAIR plan not complying with them.

Premium and Surcharge Regulations

One of HUD's administrative regulations stipulated that no insurance surcharge could be levied on any property insured under the FAIR program unless there were an actuarial basis for such a surcharge. In the past, many FAIR insurance plans had charged premiums or had added surcharges on urban residential properties that were higher than necessary from an actuarial perspective. These excessive charges often stemmed from the lumping together of residential and commercial insurance losses, even though the latter were often considerably larger than the former.

Of the first $600,000 in insurance claims paid by the Pennsylvania FAIR Plan, $540,000 were for commercial losses paid to three large commercial risks.[18] An investigation of the FAIR plan in Washington, D.C. indicated that the overwhelming amount paid in losses was for damage done to commercial establishments.[19] In the largest FAIR Plan, in New York State, heavy losses in upstate commercial properties resulted in several big rate increases for commercial and residential properties.[20]

Excessive surcharges and premiums on urban properties have also frequently resulted from the practice of certain FAIR Plans establishing larger loss reserves than necessary from an actuarial perspective. In Congressional Hearings in 1970, George Bernstein, the Federal Insurance Administrator of HUD, noted that "in the FAIR Plans, reported reserves are extremely large, are still judgmental and unproven by experience, and appear to be inconsistent with basic fire insurance principles."[21] In 1971 the President of the New York State FAIR Plan admitted that his state's plan had established

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[18]Statement of George Bernstein in Housing and Urban Development Legislation - 1970, p. 352.

[19]Ibid., p. 372.

[20]The Wall Street Journal, January 5, 1972.

[21]Bernstein in Housing and Urban Development Legislation - 1970, p. 350.

larger reserves than necessary.[22]

Coverage Regulations

Similarly, some FAIR plans have rejected insurance applications that technically should have been accepted. The 1970 FAIR administrative regulations established that an insuror in a state FAIR plan could decline to insure properties that were vacant other than for rehabilitation purposes. In some instances, however, insurance has been refused to vacant properties even though they were slated for rehabilitation. As will be described in Chapter VIII in Camden many properties rehabilitated by CHIP were initially rejected for FAIR insurance because they were vacant during rehabilitation. These rejections might not have occurred if HUD had threatened to cancel the federal riot reinsurance of the FAIR plans in question.

Problems in Securing Compliance

For the first two years of the FAIR program, HUD provided little supervision, partly owing to a lack of information. In mid-1970 the HUD Insurance Administrator, George Bernstein, admitted that he had practically no information on the number of FAIR policies that had been written, the amount of insurance claims that had been paid or the outstanding FAIR insurance losses.[23]

Present administrative regulations have improved this situation somewhat. State FAIR plans are now required to submit quarterly reports to the HUD Insurance Administrator containing such data as the number of residential and commercial properties that were insured, premiums collected and insurance losses if any. Such data should facilitate the HUD Insurance Administrator's determination of whether the state plans are in fact insuring eligible urban properties at rates that are based upon the property's actuarial risk.

But the success of these regulations depends upon the regular submission by state FAIR plans of accurate reports on their insurance activities. They have been accused by the HUD Insurance Administrator

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[22]To date many of the state FAIR programs have not been profitable. As of January 1972, New York State's FAIR plan had a net operating loss of 17 million dollars and national FAIR losses are estimated at 50 million dollars. An overall loss, however, is no justification for placing surcharges on residential urban properties when as has been noted many of the FAIR plan losses resulted from insurance losses on commercial properties. See The Wall Street Journal, January 5, 1972.

[23]Bernstein, in Housing and Urban Development Legislation - 1970, p. 345, 352.

of "distorting their figures"[24] and issuing misleading statements. The New York State FAIR plan, for example, issued a press release in December 1971 stating that it had had a $452,000 loss in 1971 whereas it had actually realized a sizable profit.[25]

Another potential obstacle arises from the fact that the state FAIR programs are directly regulated by the existing state insurance regulatory bodies. The latter have been accused of favoring private insurance companies over the FAIR insurance consumer.[26]

Establishing a Federal FAIR Program

The adoption of a federally-operated FAIR plan would possibly ease the insurance problem. Two similar bills proposing such a plan - S-4046 and H.R. 13666 - were introduced in 1970[27] by Senator Tydings and Congressman Annuzio respectively. Both had provisions granting federal urban property insurance to any state in which fifty or more properties were covered by a state FAIR plan at 175 percent of the applicable manual[28] rate. The Secretary of HUD would establish the federal insurance premium rates based on the actuarial risk of the given property. The federal FAIR plan would be effected either directly by HUD or through insurance companies acting as financial agents for the federal government.

Although the concept of a federal FAIR plan is appealing, its implementation would be extremely difficult. If the experience with state FAIR programs is any indicator, it should take at least two years to iron out the administrative jinks in a federal plan. And it is doubtful whether HUD could effectively administer both a national FAIR Plan and its present housing program.

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[24] The Wall Street Journal, January 5, 1972.

[25] Ibid.

[26] Statements of Congressman Frank Annuzio and William Morehead in Operation of the Urban Property Protection and Reinsurance Program, p. 349.

[27] These bills were not enacted.

[28] Insurance rate based on prevailing underwriting standards.

REDUCING COMMUNITY OPPOSITION

Involving Neighborhood Leaders and Organizations

A number of rehabilitation projects have successfully involved neighborhood leaders and organizations in the rehabilitation effort. To overcome the community suspicion and overt hostility toward its rehabilitation project, the Harlem Park staff explained its program objectives to local residents and organized neighborhood meetings to discuss how the rehabilitation program should be effected.[29] In the Ewing Southard rehabilitation effort in Trenton, the city contacted neighborhood leaders and met with neighborhood residents to discuss the project's objectives.[30] And in New Haven's Wooster Square rehabilitation effort, the city contacted and involved local organizations.

This involvement strategy can go a long way toward reducing community suspicion but at the same time, it creates its own problems. Not only is it difficult to obtain consensus on priorities and policies, but there may be intense factionalism as various community segments vie for leadership. In Boston's Washington Park rehabilitation effort, the major groups involved - low and middle income blacks, low income whites, as well as large and small landlords - were often at cross purposes;[31] policies favored by one group were often criticized by the other groups. The municipal administrators of the Ewing Southard rehabilitation effort, acknowledging the problems of factional crossfire, recommended that sponsors maintain a neutral stance in the ongoing power struggle.[32] Such impartiality may be difficult to sustain, however, because by the very fact of effecting one strategy over another, a sponsor will inevitably alienate some local groups.

Hiring Local Residents

Frequently suggested although difficult to implement are the following employment practices: incorporating a job training program in the rehabilitation effort and employing local residents as contractors.

Labor unions have either been indifferent or openly hostile to the employment of local residents on rehabilitation projects. For example,

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[29]McFarland and Vivret, Residential Rehabilitation, p. 93.

[30]James Alexander Jr., "Rapid Rehab: Trenton Mobilizes Limited Resources to Curb Blight in Old Neighborhoods," New Jersey Municipalities, June 1969.

[31]Gergen, "Renewal in the Ghetto," p. 250.

[32]Alexander, "Rapid Rehab:," p. 7.

C.J. Haggerty, President of the AFL-CIO Building and Construction Trades Department, although conceding the benefits of union-sponsored ghetto youth trainee programs, insisted on the exclusive employment of union journeymen on rehabilitation projects.[33]

In addition to union opposition there is the frequently prohibitive expense of hiring neighborhood labor. Sponsors of multi-family, FHA-insured rehabilitation projects, are required to pay prevailing (union scale) wages; this requirement entails a financial loss to the sponsor if he hires neighborhood workers who often may be unskilled or inexperienced, and therefore unable to match the labor productivity of experienced, union workers.

Herbert Simon, a developer in the Boston Rehabilitation Program, was pressured into hiring 350 unskilled black workers from the Roxbury community - a swollen work force, considering the extent of the project at hand. He also established a construction training center at a cost of $30,000. The inefficiencies resulting from both the trainee program and the hiring of unskilled local labor created an estimated additional expenditure of over $600,000[34] (roughly a $1,000-per-unit cost increase.)

Amity I, a rehabilitation effort in Newark, hired local black contractors whose initial skill was so low that much of the finished work had to be redone. A study of Amity [35] estimated that its social commitment to hiring local workers increased its costs and delayed the project's completion by months.

Despite the abovementioned practical difficulties, some rehabilitation contractors have endorsed the use of unskilled workers. Nathan Beavers, a rehabilitation contractor in Cleveland's Hough district, believes that "union men are no better and in fact sometimes are even worse (because set in own ways) for rehabilitation work."[36] This opinion, however, appears to be a minority viewpoint. The President's Committee on Urban Housing concluded[37] that rehabilitation requires

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[33]"Can Slum Labor Be Used to Rehabilitate the Slums?," House and Home, vol. 33, no. 6, June 1968, pp. 76-82.

[34]Keyes, Boston Rehabilitation Program, p. 71.

[35]Robert Burchell, James Hughes and George Sternlieb, Housing Costs and Housing Restraints: Newark, New Jersey. (New Brunswick: Center for Urban Research, Rutgers University, 1970), p. 86.

[36]"Can Slum Labor Be Used to Rehabilitate the Slums?," pp. 76-82.

[37]President's Committee on Urban Housing, A Decent Home, pp. 108-110.

skilled craftsmen to make the many ad hoc decisions and to perform the exacting, cutting and assembling work uniquely demanded in property renovation.

The experience of the SECD confirms this conclusion. It encountered many difficulties with its trainee program, which it ran with the cooperation and funding of the Neighborhood Youth Corp. The SECD concluded that job training and the hiring of less than highly skilled mechanics may be difficult to effect and may impede the entire rehabilitation effort.[38] It found that a novice on a rehabilitation job is a risk not only to himself, but also to others. Furthermore, its training program, offering only limited instruction in simple routine work, proved inadequate to prepare workers in handling the varied demands of the rehabilitation job and in adjusting to such difficulties as sloping floors and irregular spaces.

Trainee programs have been successfully implemented in some rehabilitation projects. In the Mount Auburn rehabilitation effort in Cincinnati, thirty trainees performed the actual rehabilitation and construction work under the supervision of experienced union members. After a six-month pre-apprenticeship period, the trainees were considered eligible to take union exams qualifying them as full-fledged working apprentices.[39] Mount Auburn is atypical, however, in that its trainee program was funded by the Department of Labor and its general contractor was sponsored by a municipal youth commission. Since most rehabilitation efforts do not have such funding, the prospect of increased construction costs may obstruct their attempts to satisfy local demands for jobs and job training.

Encouraging Neighborhood Sponsorship of Rehabilitation

The participation of neighborhood individuals or groups in rehabilitation sponsorship may have little actual utility for local sponsorship and in no way insures a lessening of community suspicion or hostility. The BURP experience is a case in point. Four black individuals with experience in real estate and contracting, received help in sponsoring rehabilitation from Eastern Gas and Electric, a local utility.[40]

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[38]Whittlesey, South End Row House, pp. 3-9, 3-11.

[39]George Norris, "HUD Flurry in Cincinnati is Making Good out of Bad," HUD Challenge, vol. 1, No. 1, November-December 1969, p. 24.

[40]Eli Goldston, "BURP and Make Money," Harvard Business Review. September-October 1969, pp. 84-89. See also Keyes, Boston Rehabilitation Program.

With Eastern's aid, this sponsor, known as Sanders Associates, received a $996,000 FHA commitment to rehabilitate properties in Roxbury. And another black group, State Enterprises, was independently formed as a sponsoring corporation with over 200 shareholders from the Roxbury community.

Both Sanders Associates and State Enterprises, however, experienced difficulties with tenants and were criticized by various tenants' associations in Boston. In fact, according to Sherwin Feinhandler's analysis of BURP[41], the Sanders and State sponsors were less responsive to the demands of their largely black tenants than were the white developers. Moreover, the participation of both the Sanders and the State groups was criticized by neighborhood leaders as tokenism.

Avoiding Relocation

Rehabilitating Around the Tenants

Local opposition might be reduced by arranging and scheduling rehabilitation in such a way that tenants could remain in their dwellings, obviating the need to relocate them. However, such a strategy is clearly unfeasible where gutting is scheduled. And even where less ambitious rehabilitation is planned, attempts to rehabilitate around the tenants may be difficult and expensive and may even exacerbate tenant hostility.

The experience of the Citizen's Housing and Planning Council of New York City illustrates some of these difficulties. The Council decided to rehabilitate two old-law tenements on New York City's Lower East Side while the tenants were still in residence. Work commenced in December of 1963, and as described by Roger Starr, the Council's executive director, tenants faced a "winter not only of discomfort, but of discontent."[42] Tenants were deprived of heat and hot water during the three months it took to install a new heating system. And they were forced to cover their furniture with dropcloths since the small size of the tenement rooms made it impossible for them to move their belongings out of the way of the construction work.

Rehabilitating around tenants also increased construction costs. Labor efficiency was reduced because work had to be staggered in such a way as to keep the dwelling units habitable. Patching, repainting

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[41]Sherwin Feinhandler, Evaluation of the BURP, (Washington, D.C.: Government Printing Office, 1971).

[42]Roger Starr, "Old Building and Low-Income Rents and Profit-Seeking Rehabilitation." Journal of Housing, No. 1, January 1967, pp. 28-32.

and refinishing were hampered by the presence of furniture. Increased costs also resulted from the installation and subsequent removal of temporary plumbing equipment.

Rehabilitating Only Vacant Houses

The SECD chose the more effective strategy of rehabilitating only vacant houses. The chief drawback of this procedure was that it limited the number of properties that could be acquired for rehabilitation.

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Scores of strategies have been proposed to facilitate rehabilitation. But because of the restraints to this housing strategy, many are either difficult to implement or can be expected to have only a small impact on increasing the volume of rehabilitation. "Stick" strategies, such as an intensive code enforcement program, have often been counterproductive. And "carrot" policies, such as tax incentives, have often been expensive or ineffective as inducements to greater investment in rehabilitation. And facilitating strategies have often proved unworkable because of the inherent unpredictability of the rehabilitation process or the expected antagonism of the surrounding community.

SECTION TWO

HOUSING REHABILITATION: MICRO ANALYSIS

INTRODUCTION

Section Two is a micro analysis of a successful rehabilitation program, the Camden Housing Improvement Projects (CHIP). In October, 1967, former New Jersey Governor, Richard Hughes, hailed the CHIP program as "evidence of how private enterprise and non-profit groups can join with government in redeveloping our communities."[1] In April, 1968, former Commissioner of the New Jersey Department of Community Affairs, Paul Ylvisaker, praised CHIP as a remarkable development in center city housing.[2] Today CHIP is considered to be one of the more successful rehabilitation efforts in the country.[3]

Since 1967 when CHIP was founded by five Camden corporations and financial institutions, it has become an important source of housing in Camden. From January, 1967 to May, 1972, 1,569 new residential units were constructed in Camden. In the same period CHIP rehabilitated over 400 houses which were then bought by low- and moderate-income families. As of May, 1972, about 2 percent of Camden's population was living in CHIP houses.

CHIP has accommodated families who couldn't afford the rental in Camden's urban renewal housing projects or who couldn't enter public housing because of their family size or because of the long waiting list for public housing. Furthermore, CHIP has been providing housing in an area in Camden which has some of the city's worst housing, especially in North Camden which has an extremely old housing stock and has many houses which have been classified by Camden's Department of Planning and Renewal as being in a poor condition. (See Exhibits 7-7 through 7-10)

Other rehabilitation efforts, such as the 2,074-unit BURP effort, have rehabilitated more units than CHIP. CHIP has been more successful than many rehabilitation programs, however, in the speed and quality of housing rehabilitation, its low foreclosure rate and the excellent record of owner maintenance of its rehabilitated properties.

Objectives of The Micro Study

Section Two examines what happened in CHIP, why it was successful and whether its success could be duplicated by other rehabilitation sponsors. Chapter Seven examines the conditions in Camden that prompted

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[1] The Courier Post, October 10, 1967.

[2] Ibid., April 4, 1968.

[3] Chamber of Commerce of the United States, "Camden Group Rehabilitates Dilapidated Row Houses into 'New Again' Units for Sale to Low Income Families," Urban Action Clearinghouse Case Study Number 15, 1969, p. 5. See also, "Camden's CHIP Chops Away Deadwood," Journal of Housing, No. 2, February 1970, p. 87.

CHIP's sponsors to rehabilitate properties for resale to moderate-income families. Chapter Eight examines the problems that CHIP encountered in its rehabilitation efforts and the strategies it employed in overcoming these problems.

Chapters Nine and Ten evaluate CHIP's performance in terms of the quality of rehabilitated housing, the foreclosure rate and the owner maintenance of these properties. These chapters also consider how the CHIP properties are marketed, the homeowner satisfaction of the CHIP buyers, and CHIP's impact upon the neighborhoods where rehabilitation was effected.

Chapter Eleven examines the reasons for CHIP's success and evaluates the possible duplication of its efforts by rehabilitation sponsors in other cities.

Chapter Twelve concludes both the macro and micro sections of this study by examining broad policy alternatives regarding urban rehabilitation facing public policy makers given the restraints to this housing strategy.

Chapter VII

THE ENVIRONMENT OF REHABILITATION: THE FORCES NECESSITATING REJUVENATION

CHIP was founded to help stem the decline of what had once been a thriving city - Camden, New Jersey. This chapter examines the demographic changes in Camden, its fiscal and social problems as well as its severe housing shortage.

Camden is located in Southwest New Jersey in Camden County and is separated from Philadelphia by the Delaware River. (See Exhibit 7-1) In the late 19th century, Camden became a fashionable spot for Philadelphians to live or to shop; many Philadelphians crossed on ferries to Camden's railroad terminal to begin their shore excursions to Cape May or Atlantic City.[1] In the early 20th Century, Camden also became an important industrial center. The Campbell Soup Company and RCA built large factories in Camden and the New York Ship and the Esterbrook Pen Companies prospered in the city.

Demographic Changes

Decline and Change in Population

From 1950 to 1970, Camden's population declined and its racial and economic composition shifted. In 1950, Camden's population was 124,555 [2] and 14 percent of its residents were nonwhite.[3] Ten years later, Camden's population declined to 117,159 [4] and the percentage of its nonwhite population increased to 24 percent.[5] By 1970, Camden's population was 103,000 and the percentage of its nonwhite population had increased to 40 percent.[6] (See Exhibit 7-2)

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[1] The Courier Post, December 4, 1968.

[2] U.S. Bureau of the Census, U.S. Census of Population: 1950, Volume II, Characteristics of the Population, Part 30, New Jersey (Washington, D.C.: Government Printing Office, 1952) p. 30-11.

[3] Ibid. p. 30-36.

[4] U.S. Bureau of the Census, U.S. Census of Population: 1960, General, Social and Economic Characteristics, New Jersey. Final Report PC(1)-32C. (Washington, D.C.: U.S. Government Printing Office, 1962) p. 32-151.

[5] Ibid. p. 32-194.

[6] U.S. Bureau of the Census, U.S. Census of the Population, 1970, General Population Characteristics, p. 32-70.

Exhibit 7-1

NEW JERSEY

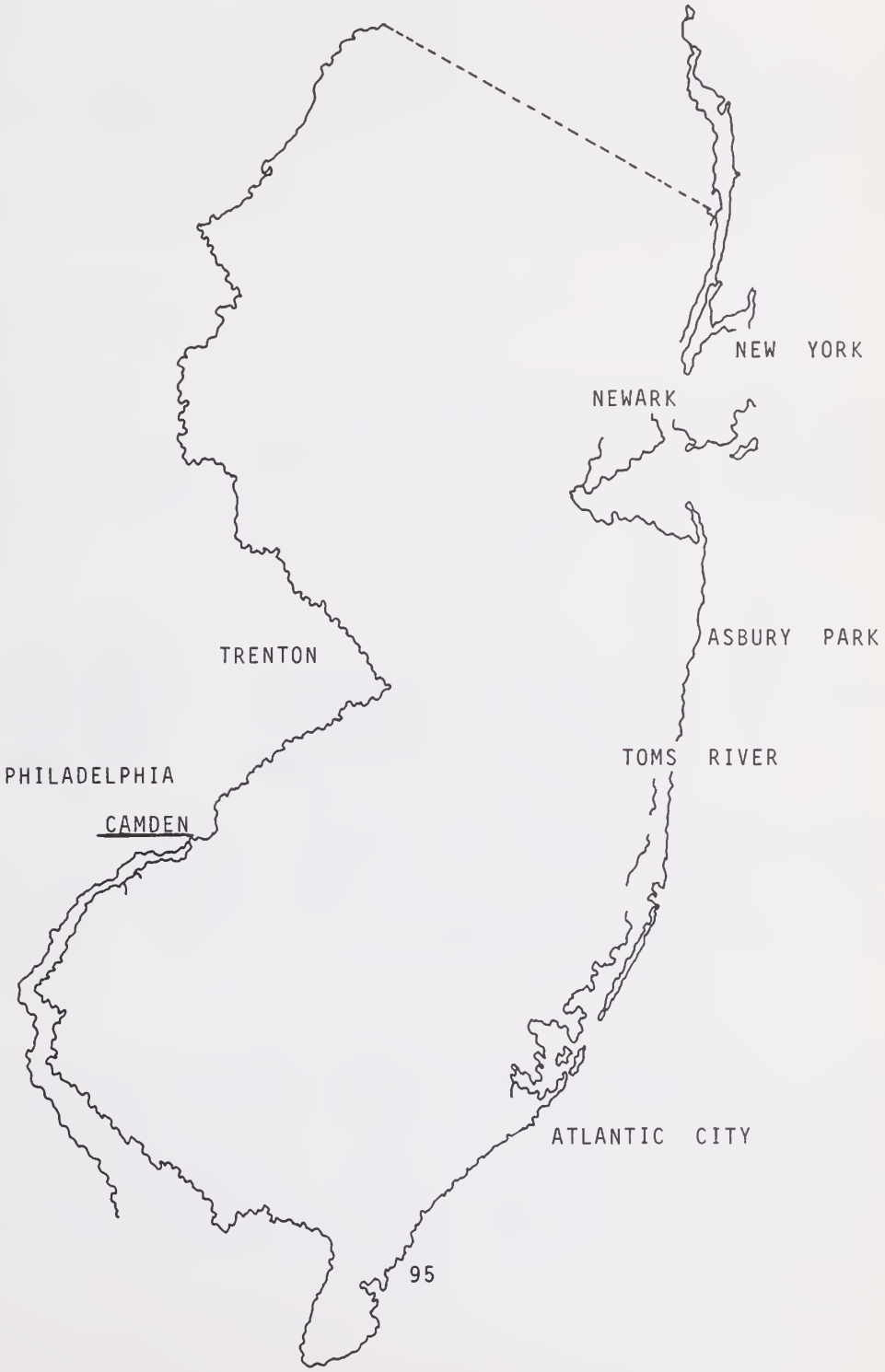
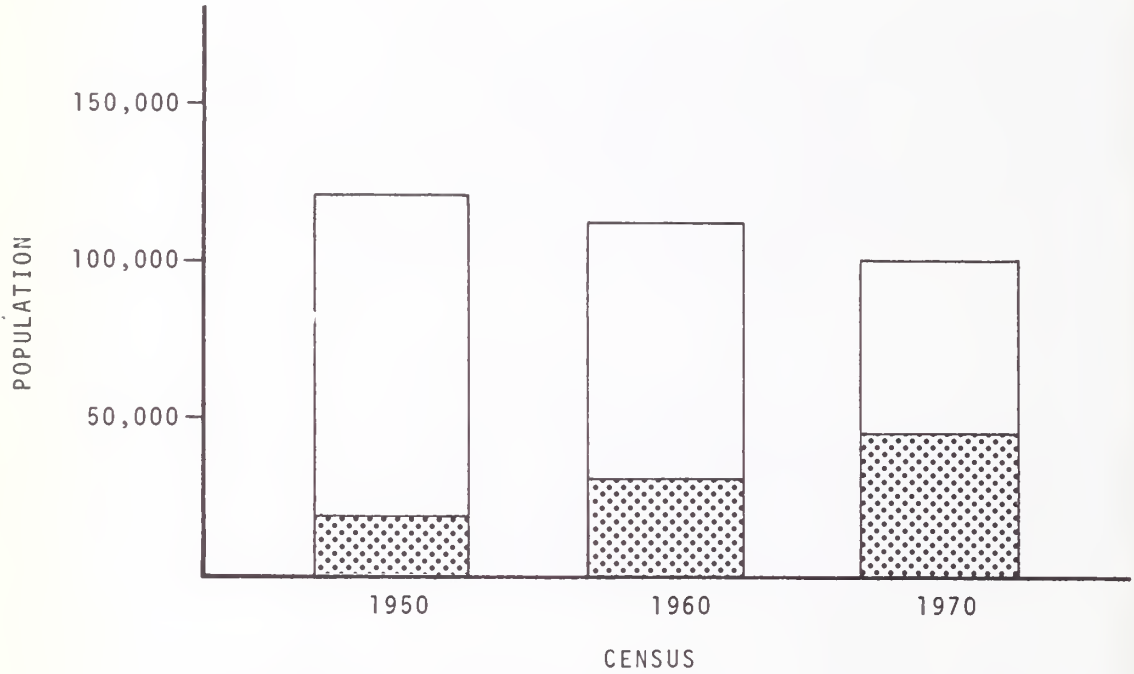


Exhibit 7-2

CHANGES IN CAMDEN'S TOTAL AND NONWHITE POPULATION
(SHADED AREA INDICATES NON-WHITE POPULATION)



Source: U.S. Bureau of the Census. Census of Population for indicated years.

A Growing Proportion of Low Income Families

Camden also has a high percentage of low income families. The 1960 census revealed that approximately one-fifth of the families in Camden had low incomes.[7] In contrast, in 1960 in surrounding Camden County, the percentage of families with low incomes was approximately 10 percent - half the percentage of low income families in Camden.[8] The 1960 census also revealed that of the 11,365 low income families in Camden County, 48 percent lived in Camden. (At the time of writing, 1970 census data on incomes in Camden are not yet available.)

Fiscal Instability

Increasing Expenditures

Along with, and partially caused by, the change in the composition of its population, Camden has been confronted by largely increasing welfare and other municipal expenditures. From 1960 until 1971, Camden's municipal expenditures increased 139 percent from 8.3 million dollars to 19.8 million dollars. In the same period, Camden's total expenditures increased 102 percent from 18.0 million dollars in 1960 to 36.4 million dollars in 1971.[9] (See Exhibit 7-3)

Decline in the Property Tax Base

While Camden's municipal expenditures rapidly increased many businesses and industries fled the city. As a consequence Camden's property tax base declined. In the quarter century after World War II, Camden's

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[7]U.S. Bureau of the Census, U.S. Census of Population: 1960, Final Report PC(1)-32C, General, Social and Economic Characteristics, New Jersey (Washington, D.C.: Government Printing Office, 1962). In 1960 a low income family was defined as a nonfarm family of four that had an annual income of $3022 or below. See: United States Department of Commerce, Bureau of the Census, Characteristics of the Low Income Population, 1970 Series P-60, No. 81, November 1971, p. 19.

[8]Camden County Planning Board, "Housing 1970," May 15, 1970, p. 15.

[9]State of New Jersey. Department of Community Affairs, Annual Reports of the Division of Local Finance for indicated years. Municipal expenditures include expenditures for general government, public safety, streets and roads, sanitation, health and welfare, recreation, education (excluding school districts), statutory expenditures and unclassified expenditures. Total expenditures equal municipal expenditures plus expenditures for capital improvements, debt service, deferred charges, required payments for local school, county and special district taxes and reserve for uncollected taxes.

Exhibit 7-3

INCREASE IN MUNICIPAL SPENDING, CAMDEN, NEW JERSEY
1960-1971

Year	Expenditures for Municipal Functions[1] (in thousands)	Total Expenditures[2] (in thousands)
1960	$ 8,340	$17,952
1961	8,990	18,865
1962	8,978	18,672
1963	9,399	19,181
1964	9,281	19,506
1965	10,964	19,304
1966	10,043	19,556
1967	11,362	22,165
1968	13,250	24,374
1969	14,685	27,867
1970	17,366	32,332
1971	19,777	36,433

[1]Includes expenditures for general government, public safety, streets and roads, sanitation, health and welfare, recreation, education (excluding school districts), statutory expenditures, and unclassified expenditures.

[2]Equals expenditures for municipal functions plus expenditures for capital improvements, debt service, deferred charges, required payments for local school, county and special district taxes, and reserve for uncollected taxes.

Source: State of New Jersey, Department of Community Affairs Annual Reports of the Division of Local Finance for indicated years.

major shipyards closed and 40,000 maritime jobs were lost.[10] Esterbrook Pen Company and other local industries moved to Cherry Hill and other Camden suburbs. RCA reduced its employment in Camden from a wartime high of 35,000 to 9,000 jobs. Many retail stores also left Camden and by 1968 there were 160 vacant stores in the city's major shopping centers.

The flight of industry was a major factor in the decline of Camden's property tax base. From 1960 until 1965, Camden's equalized property valuation increased 11 percent, from 322 million dollars to 358 million dollars. (See Exhibit 7-4) From 1960 until 1971, Camden's equalized valuation increased only 13 percent, from 322 million dollars to 363 million dollars. This small increase in the property tax base stands in contrast to both the sharp rise in Camden's expenditures and also the 112 percent increase in the total equalized property valuation in the State of New Jersey from 1960 to 1971.[11] (See Exhibit 7-4)

Increasing Property Tax Burden

To pay for its rapidly growing municipal expenditures while its tax base increased only slowly, Camden was forced to levy a high property tax rate. In 1960, Camden's equalized property tax rate (See Appendix IV) was .0440 as compared to a New Jersey average equalized property tax rate of .0291.[12] Between 1960 and 1971, the difference between Camden's property tax rate and the New Jersey average municipal property tax rate increased. (See Exhibit 7-5) Thus by 1971, Camden's equalized property tax rate was .0605 as compared to an average equalized municipal property tax rate of .0361.

Social Problems

Like many other urban areas, Camden is confronted by a soaring crime rate. In 1967,[13] Camden's crime index was 4986.[14] By 1971, this index soared to 7223[15] - an increase of 45 percent.

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[10] The Courier Post, December 5, 1968.

[11] New Jersey Department of the Treasury, Annual Reports for indicated years.

[12] Ibid.

[13] First year uniform crime statistics were compiled.

[14] Advisory Committee on Uniform Crime Reporting, Crime in New Jersey 1968, p. 136. The crime index equals the total number of criminal offenses including murder, manslaughter, rape, robbery, assault, breaking and entering, and larceny.

[15] Advisory Committee on Uniform Crime Reporting, Crime in New Jersey 1971, p. 116.

Exhibit 7-4

EQUALIZED PROPERTY VALUATION[1], STATE OF NEW JERSEY AND CAMDEN, 1960-1971

Year	Total New Jersey Equalized Property Valuation (in thousands)	Camden's Equalized Property Property Valuation (in thousands)
1960	$28,643,245	$322,361
1961	30,356,448	314,193
1962	32,033,275	316,045
1963	34,429,765	332,736
1964	37,173,502	336,173
1965	39,515,827	358,297
1966	42,066,530	332,833
1967	45,106,331	329,290
1968	47,731,563	329,619
1969	51,228,359	344,044
1970	55,141,946	354,764
1971	60,642,970	362,628

[1]See Appendix IV for explanation how the equalized property tax base was calculated.

Source: State of New Jersey, Department of the Treasury, Annual Reports for indicated years.

Exhibit 7-5

INCREASING DIFFERENCE BETWEEN CAMDEN'S EQUALIZED PROPERTY TAX RATE AND THE AVERAGE NEW JERSEY MUNICIPAL EQUALIZED PROPERTY TAX RATE,[1] 1960-1971

1 Year	2 Camden's Equalized Property Tax Rate	3 Average New Jersey Municipal Equalized Property Tax Rate	4 Difference (2) - (3)
1960	.0440	.0291	.0149
1961	.0491	.0293	.0198
1962	.0450	.0303	.0147
1963	.0437	.0301	.0136
1964	.0480	.0314	.0140
1965	.0451	.0312	.0139
1966	.0445	.0302	.0143
1967	.0490	.0320	.0170
1968	.0503	.0325	.0178
1969	.0532	.0334	.0198
1970	.0622	.0357	.0265
1971	.0605	.0361	.0244

[1] See Appendix IV for description how tax rates were derived.

Camden has also had its share of racial friction and strife. In the mid 1960s, Camden chapters of CORE, the NAACP and the local Community Action Council charged Camden's Housing Authority with segregating the city's public housing units. Civil rights groups in Camden have accused the Camden police force of brutality, discrimination and harrassment and in turn, Camden's police chief has criticized some of the leaders and tactics of local civil rights groups.[16] In the summer of 1971, racial discontent in Camden erupted into a riot.

Housing Crisis

Existing Housing Stock

Contributing to Camden's social problems is the severe shortage of decent housing in the city, especially for moderate income families. The 1960 census indicated that almost one-fifth of Camden's housing units were either dilapidated or deteriorating.[17] The 1960 census also indicated that more than one-third of the nonwhite housing units in Camden were substandard. (See Exhibit 7-6)

In 1967 a report by Camden's Department of Planning and Renewal indicated that 36 percent of the city's housing was 40 to 60 years old and that 31 percent of Camden's housing units were over 60 years old.[18] (See Exhibits 7-7 and 7-8) This report also classified the condition of Camden's residential structures; almost one-third of these structures were classified as being in poor condition. (See Exhibits 7-9 and 7-10)

Demolition and Deterioration

During the 1950s and 1960s Camden demolished many housing units so that a North-South Freeway and other highways could be built, and so that new housing could be constructed. Between 1950 and 1967, 2,217 units had

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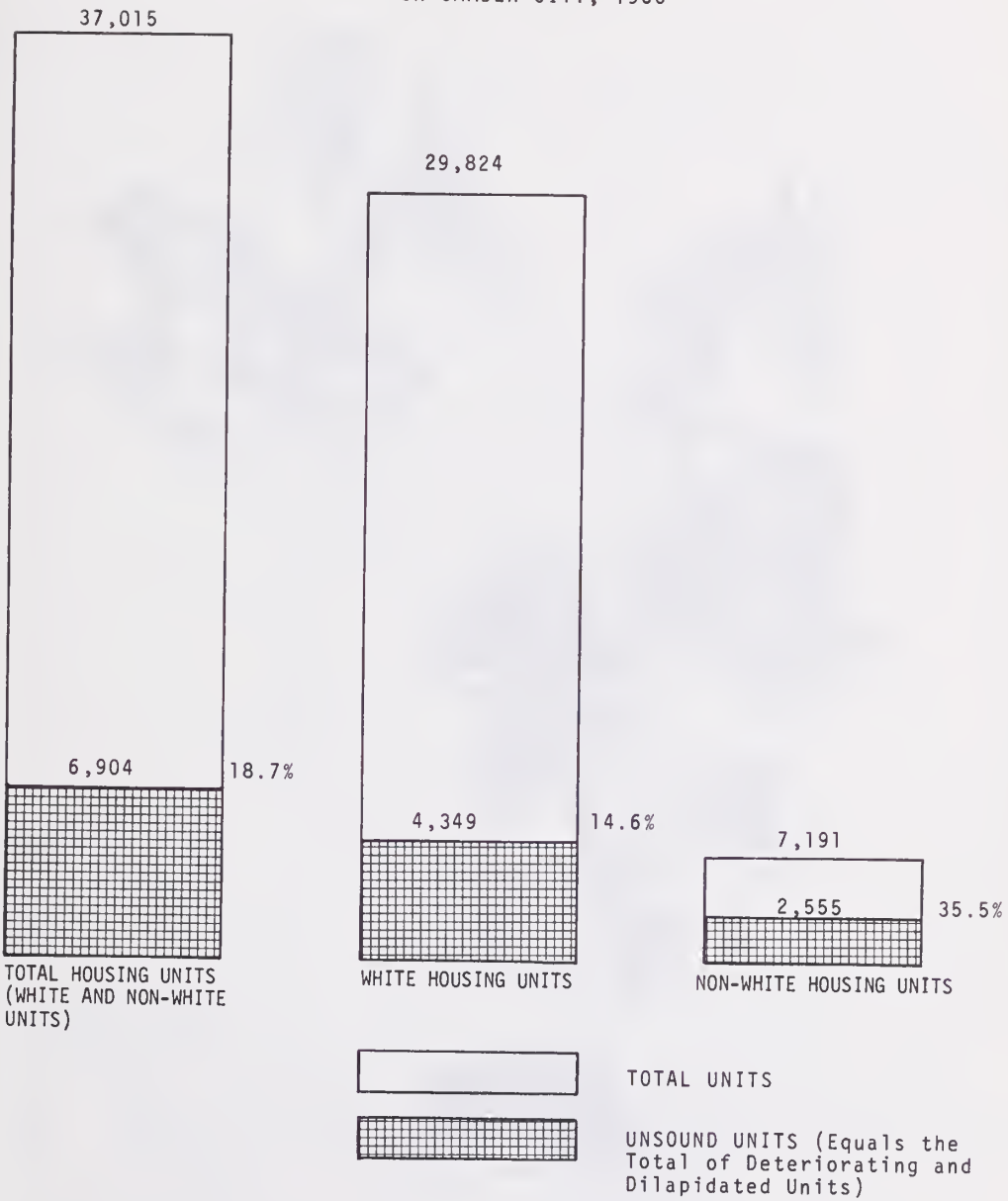
[16]See The Courier Post Series, "A City in Change," December 1968.

[17]The 1960 census classified housing as being either sound, deteriorating or dilapidated. A sound unit was defined as having no defects or only slight defects which normally would be corrected during the course of regular maintenance. A deteriorating unit was defined as needing more repair than would be provided during the course of regular maintenance. A dilapidated unit was a unit that had a combination of minor deficiencies to the extent that it didn't provide protection against the elements or was physically unsafe. See: United States Department of Commerce, Bureau of the Census, Measuring the Quality of Housing: An Appraisal of Census Statistics and Methods, Working Paper no. 25.

[18]See Stoolman Associates, "Camden, New Jersey Housing Rehabilitation Analysis," October 25, 1967, p. 9.

Exhibit 7-6

PERCENT OF SUBSTANDARD HOUSING
IN CAMDEN CITY, 1960



Source: Camden County Planning Board "Housing 1970" May 15, 1970, p. 25.

Exhibit 7-7

AGE OF HOUSING, CAMDEN, NEW JERSEY

(1967)

Exhibit 7-8

AGE OF HOUSING STOCK, CAMDEN, NEW JERSEY
(1967)

Planning District	Number of Housing Units				
	0 - 20	20 - 40	40 - 60	Over 60 years old	Total
1	43	32	2,147	1,735	3,957
2	-	-	119	518	637
3	-	-	499	1,609	2,108
4	-	-	253	739	992
5	-	32	2,033	4,351	6,416
6	-	-	28	14	42
7	-	42	1,091	620	1,753
8	1,085	486	770	270	2,611
9	288	868	1,065	167	2,388
10	555	387	1,146	36	2,124
11	736	70	442	48	1,296
12	744	400	1,243	6	2,393
13	743	664	1,052	405	2,864
14	435	1,000	1,085	701	3,221
15	2,313	1,218	362	321	4,214
Total	6,942	5,199	13,335	11,540	37,015
Percent	18.8	14.0	36.0	31.2	100.0

Source: City of Camden, Department of Planning and Renewal, Cited in Stoolman Associates,"Camden, New Jersey Housing Rehabilitation Analysis", Camden: 1967, p. 9.

Exhibit 7-9

CONDITION OF HOUSING, CAMDEN, NEW JERSEY

(1967)

Exhibit 7-10

CONDITION OF RESIDENTIAL STRUCTURES IN CAMDEN (1967)

Planning District	Number of Housing Units In Poor[1]	Fair[1]	Good[1]	Very Good[1] Condition	Total Number of Housing Units
1	1,559	2,378	20	-	3,957
2	159	442	-	-	637
3	1,710	369	29	-	2,108
4	992	-	-	-	992
5	3,185	3,204	27	-	6,416
6	14	28	-	-	42
7	1,002	709	42	-	1,753
8	472	1,285	914	-	2,611
9	-	831	1,554	3	2,388
10	-	72	1,674	378	2,124
11	47	389	514	346	1,296
12	-	-	1,217	1,176	2,393
13	412	1,981	471	-	2,864
14	396	1,724	1,101	-	3,221
15	211	412	2,569	1,022	4,214
Total	10,195	13,724	10,132	2,925	37,015
Percent	27.5	37.2	27.4	7.9	100.0

[1] Based on the condition of brickwork or siding, roofing gutters, paintwork and trim. Other factors taken into consideration were obsolete style, and unduly small units, i.e., 12 foot row houses.

Source: City of Camden, Department of Planning and Renewal, cited in Stoolman Associates "Camden, New Jersey Housing Rehabilitation Analysis", Camden: 1967, p. 10.

been demolished.[19] In the 1960-1967 period alone 1,236 units had been demolished. A HUD report projected that by 1972 nearly 30 percent of Camden's 1960 rental housing supply and 9 percent of its 1960 owner housing supply will have been demolished.[20]

In addition to being demolished, a considerable number of Camden's housing deteriorated in the 1960s. Between 1960-1967[21], 3,506 or 13 percent of the 26,934 sound owner and renter dwelling units in Camden became unsound, many had been fairly low value (below $7,500 value per dwelling unit) or low rental (less than $80 per month) units which had housed Camden's moderate income population (See Exhibits 7-11 and 7-12). Thus between 1960 and 1967 Camden's housing stock, especially its moderate income housing stock, was depleted through both housing demolition and deterioration.

Construction

Between 1960 and 1967, 1,262 housing units were constructed in Camden, far less than the number of units needed (see Exhibit 7-13). In addition, many of the units that had been constructed in Camden, such as the Northgate I urban renewal development, could be afforded only by middle income families.

Some of the low and moderate income families that were displaced by the extensive housing demolition in the city applied for admission into public housing. Camden's Housing Authority, however, could only house about 200 displaced families per year. (There was an annual 10 percent turnover rate in the Authority's 2,000 units). Furthermore, public housing was often inadequate for large families; in 1967 there were only 49 four bedroom public housing units. Thus by the 1960s Camden had experienced demographic changes and was plagued by fiscal and social problems and by a severe housing shortage.

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[19]The Stoolman Report, p. 19.

[20]See The Courier Post, "Camden A City in Change," December 1968.

[21]to October 1966

Exhibit 7-11

A COMPUTATION OF ALL SOUND OWNER DWELLING UNITS IN CAMDEN HAVING ALL PLUMBING, OCCUPIED & VACANT BY SALE PRICE BASED ON THE 1960 CENSUS OF HOUSING UPDATED TO OCTOBER, 1966

		VALUE				
	TOTAL	LESS THAN $4,999.	$5,000.- $7,499.	$7,500.- $9,999.	$10,000- $12,499.	OVER $12,500
Occupied Units - 1960 Census	20,907	6,403	6,937	5,033	2,029	505
Vacant Available For Sale Units - 1960 Census	516	244	121	120	13	18
Total Stock - 1960	21,423	6,647	7,058	5,153	2,042	523
Less Urban Renewal Demolitions 1960-1966 (1)	284	85	85	70	28	16
Less Other Losses 1960-1966 (2)	125	40	40	30	10	5
Total Stock Built Prior to 1960, Still Standing in 1966	21,014	6,522	6,933	5,053	2,004	502
Less Units Not Sound, or Lacking Plumbing 1960 Census	2,858	27% or 1,760	12% or 831	4% or 202	3% or 60	10% or 5
Subtotal	18,155	4,762	6,102	4,851	1,944	497
Less Units Which Have Become Unsound Since 1960 Census (3)	2,358	15% or 715	15% or 915	10% or 485	10% or 194	10% or 49
Subtotal	15,798	4,047	5,187	4,366	1,750	448
Plus New Construction 1960-1966 (4)	360	0	0	132	235	2

Source: The Stoolman Report "Camden, New Jersey: Housing Rehabilitation Analysis" Camden: 1967.

Exhibit 7-12

A COMPUTATION OF ALL SOUND RENTER DWELLING UNITS IN CAMDEN HAVING ALL PLUMBING, OCCUPIED AND VACANT, BY GROSS MONTHLY RENT BASED ON THE 1960 CENSUS OF HOUSING UPDATED TO OCTOBER, 1966

			RENT					
		TOTAL UNITS	NO CASH	$1. to $39.	$40 to $59.	$60 to $79.	$80 to $99.	$100 to $119.	$120 to and up
Occupied Units - 1960 Census		12,656	221	1,287	3,559.	4,567	2,034	671	317
Vacant Available for Rent Units - 1960 Census		699	0	91	317	253	34	2	2
Total Stock - 1960		13,355	221	1,378	3,876	4,820	2,068	673	319
Less Urban Renewal Demolitions 1960-1966	(1)	428	0	86	128	128	64	11	11
Less Other Losses - 1960-1966	(2)	180	0	30	50	50	30	15	5
Total Stock Built Prior to 1960, Still Standing in 1966		12,747	221	1,262	3,698	4,642	1,974	647	303
Less Units Not Sound, or Lacking Plumbing - 1960 Census		3,968	13% or 28	47% or 593	43% or 1,590	28% or 1,299	18% or 355	9% or 58	15% or 45
Subtotal		8,779	193	669	2,108	3,343	1,619	589	258
Less Units Which Have Become Unsound Since 1960 Census	(3)	1,148	15% or 28	15% or 100	15% or 316	15% or 501	10% or 162	5% or 29	5% or 12
Subtotal		7,631	165	569	1,792	2,842	1,457	560	246
Plus New Construction 1960-1966	(4)	1,044	0	0	0	0	115	354	575

Source: See Exhibit 7-11

Exhibit 7-13

Needed New Construction in Camden, 1961-1970

	1961-1965	1966-1970
Dwelling Units beginning of period	37,015	37,182
- Withdrawals during period	3,332	3,487
Stock remaining	33,683	33,695
Households at end of period	35,752	36,857
+ Vacancy allowance	1,430	1,474
Total dwelling units required by end of period	37,182	38,331
- Stock remaining	33,683	33,695
New Construction Required	3,499	4,636
Required Annual Rate of Construction	700	927

Exhibit 7-14

Disparity Between Camden's Housing Construction and Housing Need, 1960-1967

Year	Actual New Construction	Needed New Construction (See Exhibit 7-13)
1960	30	700[1]
1961	246	700
1962	105	700
1963	70	700
1964	239	700
1965	30	700
1966	336	927
1967	206	927
Total	1,262	6,054

[1]Camden's 1960 needed increase in housing units is assumed to be the same as the annual needed increase in the 1961-1965 period.

Source: The Stoolman Report, p. 19.

Chapter VIII

THE SPECIFIC REHABILITATION CASE: BACKGROUND, STRATEGIES, PROBLEMS

This chapter describes how the sponsors of CHIP hoped to rejuvenate Camden through housing rehabilitiation and examines the rehabilitation strategies that CHIP followed as well as the problems it encountered in rehabilitating houses in Camden.

CHIP: BACKGROUND

The acute housing shortage in Camden prompted five local groups to form CHIP in August 1967. The five sponsors were Campbell Soup Company, Radio Corporation of America, Bank of New Jersey, South Jersey National Bank and the Dorrance Foundation. Each of the sponsors initially pledged a $20,000 non-interest bearing loan. Each later increased his pledge to $100,000 and this money served as a revolving fund for purchasing and rehabilitating houses in Camden for resale to low income families.

Business and civic leaders in Camden were elected as CHIP's officers and appointed as trustees. CHIP's Chairman of the Board, Oliver Willets, was former Chairman of the Board of the Campbell Soup Company. CHIP's President William Bell, Jr. was president of the First Camden National Bank. Trustees John Barco, W. Robert Davis, Emanuel Smith and John Dorrance, Jr. represented the Radio Corporation of America, Camden Trust Company, Union Federal Savings and Loan Association and the Dorrance Foundation, respectively. Other trustees represented such diverse groups as the Camden County Community College, the Camden chapter of CORE and the Greater Camden Movement, a business-civic organization.

Objectives

A nonprofit organization, CHIP states that its major objective (in Article I of its bylaws) is to "provide or assist in providing by construction, restoration, renovation or otherwise low cost houses in Camden for purchase by persons of limited income." CHIP's officers have considered the possibility of constructing new homes for low income individuals but because of costs and other constraints, its activities have been limited to rehabilitating housing.

Its sponsors felt that it was important to enable low income families in Camden to purchase their own houses. Because the sponsors believed that the pride and responsibility of homeownership were essential for improving inner city neighborhoods, they decided not to sponsor rental housing projects.

Preliminary Activity

One of the first actions of CHIP's sponsors was to commission a detailed study of Camden's housing resources, trends and needs by a private consulting firm, Stoolman Associates. The results of the Stoolman study, which was completed in October 1967, reaffirmed the sponsors' belief that the housing supply, especially for moderate income individuals, had steadily declined in Camden.

The Stoolman report concluded that through 1980 some 12,200 dwelling units would be removed for land use and reconstruction; no large scale housing additions could be expected from the Camden Housing Authority and the existing new construction pace was inadequate - between 1961-65 fewer than 150 units had been constructed annually. To ameliorate the housing shortage, the report recommended that a housing rehabilitation program should be effected and that by 1980, 10,800 units should be rehabilitated.

CHIP's sponsors moved toward their goal of rehabilitating houses for moderate income families by seeking an executive director with expertise in many areas such as urban real estate and finance and experience in operating in a poverty neighborhood. In October 1967, they hired a licensed real estate broker, Jerome Weinstein, who had served in the Camden Community Action Program. Mr. Weinstein also has had experience as a consultant to a church-sponsored rehabilitation effort in Philadelphia and Camden. Soon after he was hired, Weinstein and CHIP's sponsors formulated the rehabilitation strategies that would be followed by CHIP.

REHABILITATION STRATEGIES

Use of the 221h-235j Programs

In order to effect its objective of rehabilitating and selling properties to moderate income families CHIP decided to utilize the federal 221h-235j programs. (See Exhibit 1-4) Under these programs a nonprofit rehabilitation sponsor can obtain a mortgage from the federal government to purchase and rehabilitate properties. The interest rate on this mortgage bears a market interest rate until its endorsement by the FHA, at which time the interest rate is reduced to three percent.

After the property is rehabilitated by the nonprofit sponsor it is sold to a family with moderate income. Income limitations are 135 percent of the limits established for initial admission to public housing in the area. The mortgage of the home purchaser is an amount equal to the unpaid balance of the mortgage held by the nonprofit sponsor.

HUD makes monthly payments to the mortgagee to reduce the interest rate to as low as one percent. The moderate income homeowner must pay at least 20 percent of his adjusted income on the mortgage. Although the

term of the mortgage is 30 years, the FHA can authorize terms of 35 to 40 years. (The importance of the 221h-235j programs in reducing the monthly amortization on a CHIP house will be discussed later.)

The Acquisition of Vacant Properties

CHIP initially decided to purchase and rehabilitate only vacant properties in order to avoid causing relocation problems. CHIP felt that rehabilitating occupied properties would defeat its goal of increasing the housing supply available to low income individuals.

CHIP had considered the idea of providing temporary dwelling for the tenants of an occupied building while that building was rehabilitated. After rehabilitation these former tenants would be given first preference to purchase the rehabilitated property with a liberal mortgage under the 221h-235j programs. CHIP rejected this strategy, however, because many of these former occupants might be ineligible to participate in the 221h-235j programs for reasons of marital status, family size or income. Furthermore, even if eligible, some of the former tenants might prefer to rent a dwelling unit rather than to shoulder the burden of home ownership.

Extensive vs. Cosmetic Rehabilitation

The spectrum of property rehabilitation can range from a cosmetic approach in which almost anything that is operative is retained to a gutting approach in which almost everything except the property frame is replaced. At first, Weinstein and CHIP's sponsors considered a strategy of replacing only nonfunctional mechanical components and of effecting only a minimal level of rehabilitation. They subsequently decided that CHIP would rehabilitate the properties it acquired to an "as new" standard. (The graphic contrast between the houses CHIP purchases with the rehabilitated CHIP houses is illustrated by the photographs on the next and succeeding pages.)

In order to effect this "as new" standard of rehabilitation CHIP does the following in each house it acquires. All obsolete nonbearing walls are removed in order to provide a modern floor plan with ample closet space. Plaster and other surfaces in questionable condition are removed and replaced. It installs a new electrical system with circuit breakers, new lighting fixtures, ample outlets and 100 amperage service. New hardwood floors and a modern gas hot air heating system are installed. A kitchen with new cabinets and a refrigerator, stove and sink is provided.

Marginal Differences in Carrying Costs

CHIP decided to undertake "as new" rehabilitation because it felt that such rehabilitation would increase the homeowner satisfaction of owning a CHIP house. Furthermore, including these amenities does not significantly increase the monthly amortization of a CHIP house. Jerome Weinstein estimated that if CHIP chose to economize by replacing a

TYPICAL CONDITION OF PROPERTIES PURCHASED BY CHIP

TYPICAL CONDITION OF HOUSES PURCHASED BY CHIP (BACK VIEW)

CHIP REHABILITATION IN PROGRESS

CHIP REHABILITATION IS EFFECTED BY LOCAL COMMUNITY CONTRACTORS

HOUSE REHABILITATED BY CHIP

HOUSES REHABILITATED BY CHIP

HOUSE REHABILITATED BY CHIP (BACK VIEW)

KITCHEN IN CHIP HOUSE

a defective boiler instead of installing an entirely new heating system, by patching a roof instead of replacing it and by using vinyl rather than hardwood floors in the vacant properties it acquired, it would realize a mere $2.50 reduction in the monthly mortgage payment on a rehabilitated CHIP house with a 235j mortgage with a 40-year term and a one percent interest rate. Eliminating such amenities as storm windows, laundry facilities, etc., would result in an approximate saving of only $2.00 in the monthly amortization payment. Because excluding all these amenities would result in only negligible savings, CHIP decided to include them.

Reduced Owner Maintenance Costs

To qualify for a mortgage interest rate subsidy under the 235j program a family of three in Camden cannot earn more than $6210 annually; a family of five cannot earn more than $6885 (unadjusted income limits) given these income limits a major repair expense could seriously threaten the ability of a CHIP family to continue its mortgage payments. CHIP's policy of "as new" rehabilitation is aimed at decreasing the likelihood that a major repair will be needed and consequently at decreasing the chances that a CHIP homeowner will default on his mortgage payments because of costly property repairs.

Reduced Call Back Expenses

A final reason for the "as new" rehabilitation strategy was to reduce CHIP's expense for call backs. These call backs involve the replacement or repair by CHIP, at its own expense, of a defective roof, heating system or other mechanical or structural components. Call backs are expensive both in terms of materials and labor.

REHABILITATION PROBLEMS

CHIP started to rehabilitate the first house it acquired in November 1967 and was able to sell it four months later to a moderate income family. By the end of its first year of operation CHIP had sold 25 rehabilitated properties. Its rate of rehabilitation has increased steadily in succeeding years of operation. (See Exhibit 8-1)

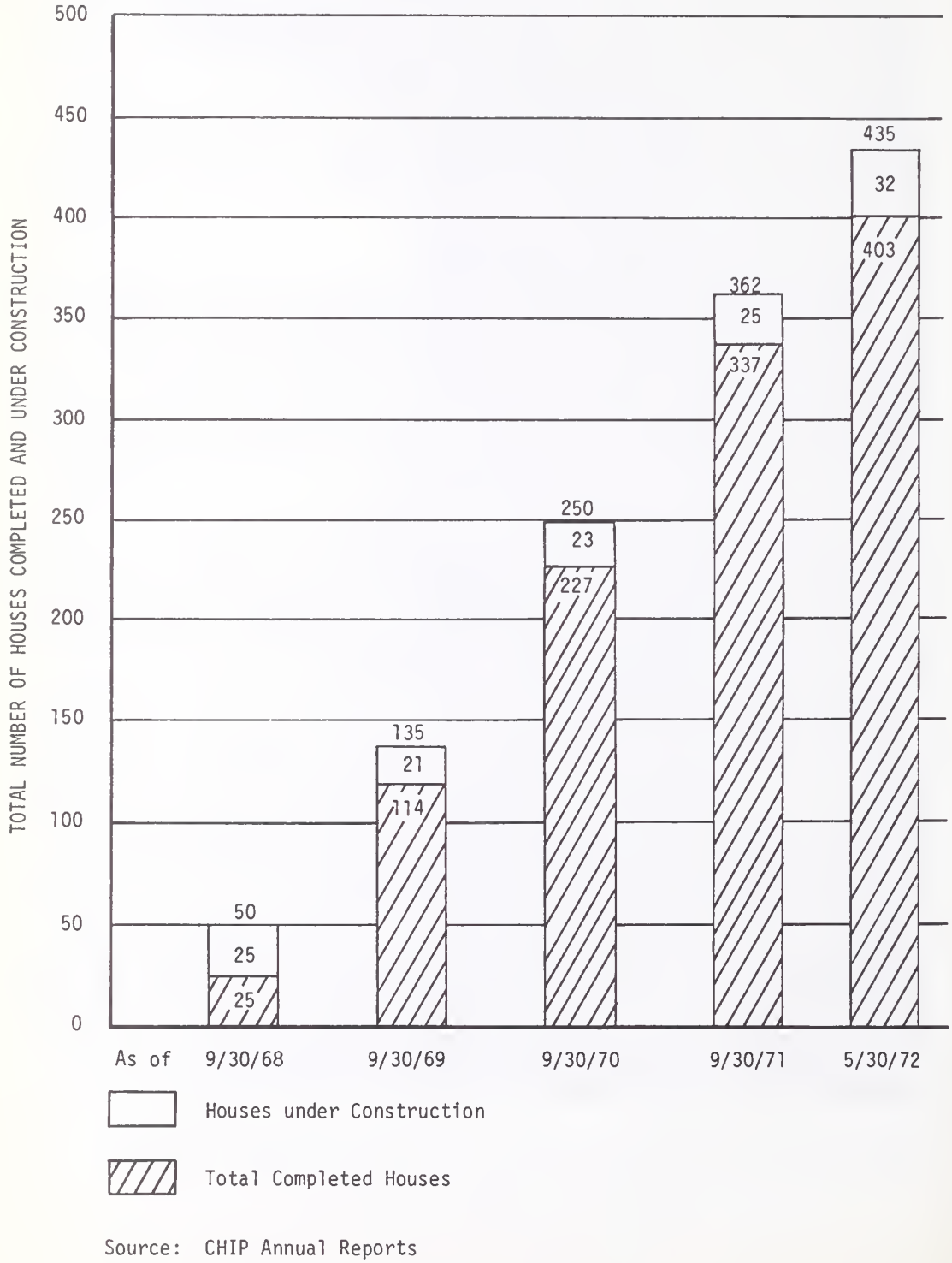
Although CHIP is considered to be one of the more successful rehabilitation efforts in the country, its success has not come easy. In its five year history, it has faced serious problems in acquiring properties, obtaining fire insurance, attracting contractors to rehabilitate its properties and in circumventing governmental red tape. Other rehabilitation sponsors, facing almost identical problems, have been unable to surmount them as successfully as CHIP.

Acquiring Properties

CHIP has encountered many of the property acquisition problems that were described in Section One of this study. CHIP's property

Exhibit 8-1

GROWTH OF THE CHIP PROGRAM



Source: CHIP Annual Reports

acquisition problems were exacerbated by its policy of rehabilitating only vacant properties- yet it would have encountered similar difficulties even had it chosen to purchase occupied properties.

Buying City-Owned Properties

At CHIP's inception, property acquisition appeared to be the least likely of all its potential problems. Years of urban decay and the lure of surrounding suburbs had reduced the demand for properties in Camden. Furthermore, through tax foreclosure the city owned many properties. In 1967 CHIP had every belief that it could rehabilitate municipality-owned properties. On closer inspection, however, many of these city-owned properties proved unsuitable.

First of all, many were occupied and therefore couldn't be utilized. Furthermore, many were of frame construction and through neglect, vandalism, or just age, had deteriorated so badly that their rehabilitation was not economically feasible.[1]

Another deterrent was that many of the city-owned row houses were too small to justify rehabilitation. Because CHIP had found that the major costs of rehabilitation--replacing the mechanical systems, roof, kitchen and bathroom--in a small house were almost as great as those in a larger property, it had decided to bypass very small properties--those with 800 square feet or less.

Moreover, since some city-owned houses were located on blocks characterized by extensive housing deterioration and decay, CHIP felt that rehabilitation would be inadequate to stem housing blight; only clearance and new construction would be of value in these instances. And still other city-owned properties were located in areas slated for urban renewal or major highway construction. Rehabilitation in such areas would clearly be fruitless since the newly restored structures would soon have to be demolished.

Foreclosing Tax Delinquent Properties

In New Jersey a tax sale of delinquent properties is held six months after the close of the calendar year for which taxes are delinquent. At this sale a successful bidder acquires a tax lien sale certificate which can be foreclosed after a two-year period of redemption has elapsed. There is little demand for these tax certificates, and in most instances they remain in the hands of the municipality.

CHIP considered a strategy of purchasing tax lien sale certificates and foreclosing them and it hoped that Camden would foreclose its own

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[1]Weinstein, "Rehabilitation Success Depends on Solving Problems of Property Acquisition," p. 241.

tax lien certificates and would then offer to sell these tax delinquent properties to CHIP. In practice, however, such a strategy would do little to alleviate the property acquisition problem confronting CHIP.

In Rem Foreclosure

In New Jersey a tax lien certificate can be foreclosed through either an *in rem* or *in persona* process. The former procedure which is simpler and less expensive can be utilized only by a municipality. It can be used only if two years have elapsed from the date of the tax sale, and if all or any portion of the property taxes have not been paid for 48-months preceding the commencement of the *in rem* foreclosure action.

Until February, 1969, when New Jersey Chapter Law 464 (Laws of 1968) became effective an *in rem* procedure could be effected only if *all* property taxes were not paid for a consecutive 48-month period. Before this date, astute property owners, by making one property tax payment during this consecutive 48-month tax delinquency period, frequently were able to prevent Camden's use of the *in rem* foreclosure procedure.

The passage of Chapter Law 464, eliminated the obstruction of *in rem* foreclosure by such a single tax payment. A considerable period of time, however, must elapse before *in rem* foreclosure can be effected. If a property in Camden became delinquent in November, 1969, and if a tax sale was not held until November, 1971, then *in rem* foreclosure could not be effected until November, 1973--two years after the tax lien sale and 48 months after the property taxes had become delinquent. During this 48-month period, the tax delinquent property is often abandoned and vandalized to the extent that rehabilitation is economically unfeasible.

In Persona Foreclosure

Camden could also foreclose a tax lien through an *in persona* procedure. It has rarely used such a procedure, however, because of the paperwork involved.

CHIP or any other private party could purchase a tax title certificate and foreclosure the certificate through the *in persona* procedure. The *in persona* procedure, however, cannot be effected until a two-year period of redemption after the tax lien sale has expired, during which the property may be abandoned and vandalized.

> Furthermore, because of legal expenses and the requirement that the tax lien be kept current by paying the property taxes that are owed, the *in persona* procedure would be prohibitively expensive for a private party like CHIP. In Camden the *in persona* foreclosure of a property that had an assessed value of $5,000 would cost CHIP $2,234, which is higher than the maximum $2,000 and the average $1,300 that CHIP had been paying for its properties. (See Exhibit 8-2) Because of the high cost and the lengthy waiting period before *in persona* foreclosure proceedings could be effected, CHIP ruled out the acquisition of properties through the purchase and foreclosure of tax lien certificates.

Purchasing Properties from Realtors

CHIP informed numerous real estate brokers in the Camden area of its need for vacant houses to rehabilitate, offering a finder's fee of $100 per house. CHIP did acquire some properties from real estate agents but many realtors were not interested in working with CHIP because they considered the $100 finder's fee inadequate.

Purchasing Properties from Owners

Most CHIP properties were acquired through direct negotiations with the owners. An example of the difficulties often encountered in contacting these owners can be seen in the following description of the efforts to locate the owner of record of a vacant boarded house on Ten State Street.[2]

> Mr. Thomas, who was listed as the property owner, could not be contacted. He was also listed as the owner of 20th Broadway in Merchantville, a Camden suburb. When a CHIP staff member traveled to Merchantville, he was told that 20th Broadway was now owned by a church. A member of the church informed CHIP that 20th Broadway was bought through a realtor in Westmont, a suburb of Camden. This realtor then told CHIP that he handled Thomas's transaction through attorney Shmitt in Camden. Shmitt advised CHIP to see Metropolitan Real Estate who probably had the State Street property listed for sale. CHIP finally acquired the State Street parcel from Metropolitan.

The above example is not atypical. In order to locate property owners CHIP's staff often had to travel to Oaklyn, Collingswood and other Camden suburbs.

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[2]Addresses and names have been changed.

Exhibit 8-2

IN PERSONA FORECLOSURE COST OF A CAMDEN PROPERTY
WITH AN ASSESSED VALUE OF $5,000

Date	Delinquency, Tax Sale and Foreclosure Actions	Cost to Lien Holder
November 1969	Property becomes delinquent	———
November 1971	Tax sale is held[1] and private tax lien purchaser pays 1970 delinquent taxes of $352[2].	$352
November 1971	To keep tax lien current tax lien purchaser pays 1971 outstanding taxes of $352	$352
November 1971 - November 1973	Tax lien purchaser pays property taxes during two-year period of redemption ($352 x 2)	$704
November 1973 - May 1974	In persona foreclosure proceedings are conducted entailing a legal expense of $650. The procedure takes six months and the tax lien purchaser pays property taxes of $176. (352 x .5)	$826
	TOTAL	$2234

[1]New Jersey law requires a minimum six-month waiting period after the close of the calendar year during which taxes become delinquent.

[2]At Camden's 1971 general property tax rate of $7.04 per $100 of assessed valuation.

Even when CHIP was able to contact a property owner, a frequent problem was that the parcel had been in tax arrears for a substantial period of time. The amount of these back taxes owed to the city strongly influenced CHIP's decision whether or not to buy a given property. Theoretically, CHIP would not have to pay full back taxes because according to New Jersey law (N.J.S.A. 54:4-96), a municipality has the discretion to reduce the amount of back taxes to as low as the market value of the tax delinquent property. In other words, a municipality could reduce delinquent taxes if it was satisfied that the market value of the property was less than the principle sum of taxes and assessments. In practice, however, Camden did not forgive delinquent taxes on any of the properties CHIP wished to acquire.

CHIP also advertised in the local newspaper, the Courier Post, that it wished to acquire vacant properties, but CHIP received practically no response to its advertisement.

By mid 1968 it was apparent to CHIP that its rehabilitation effort would be hampered unless it could find a new method of acquiring properties. It decided to explore the possibility of property acquisition by having the city and state utilize their power of eminent domain.

Eminent Domain: City of Camden

New Jersey municipalities have the power of eminent domain only for specified objectives. New Jersey statute (RS 40:60-2) provides that every municipality "may acquire by...condemnation any real estate...which its governing bodies shall decide to be necessary or useful for the proper exercise of any power conferred upon it." The statute lists such "useful purposes" as public plazas, thoroughfares, buildings, parking lots and comparable purposes. The statute's specific delineation of useful public purpose led CHIP's attornies to conclude that Camden could not legally condem properties for resale to a rehabilitation sponsor like CHIP. To ameliorate its housing acquisition problem, CHIP then turned to the state for assistance.

Eminent Domain: New Jersey Housing Finance Agency

Established in 1967 to encourage construction and rehabilitation through the use of public financing, public loans, and otherwise, the New Jersey Housing Finance Agency (NJHFA) has the power "to acquire by purchase, gift, foreclosure or condemnation any property... and to sell or assign, etc., any such property at public or private sale with or without bidding.[3]

[3]N.J.S.A. 55:14J-1 et seq.

In July 1968, CHIP contacted the NJHFA, explained its problem of property acquisition and requested that the housing agency utilize its power of condemnation. The NJHFA agreed to act on CHIP's request only if the city of Camden would explain why its own legal powers were inadequate to acquire properties for rehabilitation by CHIP.[4]

A month later Camden's Mayor, Alfred Pierce, by way of explanation, stated that municipal tax foreclosure was an extended, cumbersome process inadequate to supply the number of houses needed by CHIP, and that the city had no statutory authority to exercise the power of eminent domain in acquiring properties for the CHIP rehabilitation program. Pierce requested that the NJHFA intercede by using its power of eminent domain.

In November 1968, Camden's City Council passed a resolution requesting the NJHFA to exercise its power of condemnation to acquire properties in Camden for sale to CHIP. The NJHFA's compliance shortly afterwards marked the first time that the state of New Jersey had consented to use its power of eminent domain to bypass the lengthy foreclosure procedures which were a legacy of the depression.[5]

To facilitate the condemnation proceedings, CHIP's counsel was appointed a special New Jersey Deputy Attorney General. For each condemnation, CHIP's average cost in legal fees and out-of-pocket expenses is $400. CHIP also must pay the owners of the condemned properties the value of their properties as determined by state-appointed condemnation commissioners. For their appraisal services CHIP pays these commissioners $150 per house. The average total cost to CHIP of properties acquired through the state's condemnation procedures has been between $1200 and $1300.

NJHFA condemnations have greatly alleviated CHIP's difficulty in obtaining properties. From the commencement of the state foreclosure proceedings, CHIP can obtain a property in about 10 to 12 weeks. Although only 54 of the first 415 properties purchased by CHIP have been acquired from the NJHFA, the commencement of state condemnation proceedings has in many instances persuaded property owners to sell their parcels to CHIP.

But the assistance of the NJHFA has not totally eliminated CHIP's property acquisition problems. CHIP's Fourth Annual Report noted that the following property acquisition problems remained:

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[4] The Courier Post, November 8, 1968.

[5] The Courier Post, November 15, 1968

The 415 properties we acquired over the past four years have virtually exhausted the backlog of suitable houses available for rehabilitation...

At its inception, CHIP became the primary buyer for wornout, vacant properties due to the unavailability of FHA financing in North and South Camden. Currently, it is available and a healthy re-sale market exists throughout these areas. The strength of this market is encouraging and our property improvement efforts have contributed to its existence but it has increased the competition we face in acquiring vacant properties. The pressing demand for rental housing also adds to the property owner's options. We are the the market of last resort. This year our property purchase costs remained about the same but often our purchases had substantial defects, fire damage, or other forms of excessive deterioration.

In previous years, these properties would have been rejected due to cost factors but as they are in the immediate vicinity of other CHIP homes, they warrant doing. Ignoring these derelict properties would adversely affect our previous efforts. Unfortunately, unless we can undertake to rehabilitate a property it remains vacant and a hazard. For example, 70 per cent or more of all reported fires in Camden are in vacant buildings... Therefore, we have lowered our standards for property acquisition and often include marginal properties. The resulting construction costs are substantially higher... The benefits to the neighborhood, however, and the need to maintain our production of homes support this action.

Obtaining Insurance

CHIP and the CHIP homeowners have also encountered many of the problems in obtaining insurance that were described in Section One of this study. Their insurance problems parallel those encountered by many urban property owners in New Jersey.

Even before the 1967 riots in Newark and Plainfield, many New Jersey urban property owners had found it difficult to obtain fire, theft, and other insurance. In 1965 protests were filed by numerous New Jersey banks and other mortgagees to New Jersey's Insurance Commissioner, Edward Howell, that their mortgagors could not obtain fire insurance in older urban neighborhoods as well as in certain shore communities.[6] In May of that year, after a meeting between Howell and the state's fire insurance companies, the latter agreed that they would curb the insurance "blackout" in urban and seashore areas. However, this agreement was not entirely adhered to; five days before the 1967 riot in Newark, for example, one insurance company canceled all policies[7] in the troubled inner core of the city and other insurance companies refused to write or renew fire insurance in many urban areas in New Jersey.

The urban insurance problem in New Jersey became acute in the wake of the 1967 Newark and Plainfield riots. A year after these disturbances, it was estimated that more than 7,500 properties in New Jersey valued at 125 million dollars were without direct insurance coverage.[8]

In Camden, as in other cities in New Jersey, it was difficult to obtain fire insurance. CHIP often encountered problems in acquiring coverage for the purchasers of its rehabilitated properties. These problems were alleviated in 1968 when the New Jersey Insurance Underwriting Association (NJIUA) was established to administer the FAIR plan in New Jersey for CHIP and the CHIP homeowners were able to obtain fire and vandalism and malicious mischief (VMM) insurance from the NJIUA at reasonable rates--a $13,000 fire insurance and VMM insurance policy costs about $60 to $70 per year. Some insurance problems however still remain.

Delays in Obtaining Insurance

An application for homeowner insurance is frequently not approved until six to nine weeks after its submission. Furthermore, an insurance application is often rejected because the doors and windows of the vacant property undergoing rehabilitation have not been boarded. It would be senseless, however, for CHIP to do so because such boarding would impede or altogether prevent rehabilitation.

A second application for insurance must then be submitted along with an explanatory note that the property is in the process of being

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[6] The Courier Post, May 26, 1965.

[7] The Washington Post, September, 1967.

[8] The Courier Post, December 3, 1968.

rehabilitated and will be occupied once rehabilitation is finished. In most cases, the application is then approved. But the initial rejection has lengthened the six-to-nine week waiting period.

Delays in Collecting Insurance

CHIP and its homeowners have also experienced delays in collecting insurance. The losses accompanying a fire in the CHIP office in July 1971, were not compensated for until February 1972. An earlier fire in January 1971, destroyed a structure that had been fully rehabilitated; CHIP was not compensated for its loss of the building, however, until April 1972. And CHIP homeowners have encountered similar delays; one woman, forced to leave her house after a fire, had to wait seven months before her losses were compensated by the NJIUA.

Incomplete Payments

Companies insuring the CHIP properties have often refused to pay for the full damages. In one recent case although a CHIP house suffered $7,000 in fire damage, the company insuring the property offered the CHIP owner a reimbursement of only $4,000. Any out-of-pocket expenditure to repair fire damages is often an onerous burden to CHIP homeowners. Their inability to collect the full amount of their fire losses from the NJIUA has therefore been a serious problem.

Other Insurance Problems - Coverage for Vandalism and Living-Out Expenses

CHIP houses are located in neighborhoods where vandalism is an ever present problem. Technically VMM coverage is available from the NJIUA, but in practice some CHIP homeowners have not been able to obtain such coverage.

A further deficiency is that most CHIP policies have been of the 203 variety, (FIRO - New Jersey form 203) which does not compensate for living-out expenses after a fire. After a fire in his house, a CHIP homeowner may be forced to rent a temporary dwelling at a rent that is considerably higher than the mortgage amount he has been paying. If fire compensation is delayed, then a lack of living-out coverage may represent a major hardship. (Those CHIP homeowners who have insurance policies of the 206 variety [FIRO - New Jersey form 206] which provides living-out expenses, do not encounter this problem.)

Attracting Contractors

CHIP has also encountered many of the problems of attracting contractors that were examined in the macro analysis section in this study.

Early Experience with Contractors

In August 1967, the Home Builders' League of South Jersey volunteered its assistance to CHIP. A committee of builders aided CHIP in selecting properties for rehabilitation and also recommended the services of a Philadelphia general contractor who had experience in rehabilitation. The Home Builder's League anticipated that this contractor's experience and expertise would be a tremendous asset to CHIP's rehabilitation program. He agreed to start rehabilitation, but because of his numerous other commitments he quit work before the first five houses were completed. Bob Nyce, a successful builder and a member of the Home Builders League took over, completing the first 19 CHIP properties. At that point, however, he felt that his construction company should no longer continue to do the rehabilitation for CHIP for he felt that rehabilitation should be effected by neighborhood contractors. Nyce remained with CHIP on a consultant basis, however, estimating the cost of rehabilitating the vacant properties, and providing field supervision of the work done by CHIP's contractors.

Present CHIP Contractors

All of CHIP's seven general contractors are fairly small local builders, who have had experience in general construction. Four are black. One had previously worked on CHIP houses as a masonry subcontractor. Another had been his foreman; both were encouraged by CHIP to act as their own general contractors.

CHIP has attempted to attract small contractors in Camden by offering to pay them every week, thus reducing the need for a large amount of start-up capital or for costly construction loans. CHIP's existing pool of contractors is sufficient to handle the current scope of the CHIP program - rehabilitating approximately 100 houses per year. But it would find it difficult to handle any increase in its volume of rehabilitation.

Reasons for the Difficulty in Attracting Contractors

Some contractors are unwilling to work in North or South Camden because of the conditions in these areas. They feel that work in these neighborhoods is dangerous because of the constant threat of theft and physical violence.

Furthermore, the profit margin of the contractors working for CHIP is lower than that to be realized on comparable construction work in the Camden area. Bob Nyce estimates that a general contractor working for CHIP can make a profit between 10 and 15 percent, whereas the profit margin in the greater Camden area for custom rehabilitation or remodeling is considerably higher--approximately 25 to 35 percent. Moreover, in Cherry Hill and other Camden suburbs there has been a strong demand for contractors to do conventional construction.

CHIP's Relationship with Government Agencies

Despite the excellent cooperation CHIP has received from various governmental agencies, its rehabilitation efforts have occasionally been impeded by some of the policies of these agencies.

The Federal Housing Administration

In the opinion of Jerome Weinstein, CHIP could not have succeeded without the assistance and cooperation of many local FHA staff members. Some of the problems CHIP did encounter in dealing with the local FHA are described below.

The local FHA office's requirement that CHIP obtain a project mortgage increased CHIP's costs. Such a project mortgage is required of most rehabilitation sponsors in the FHA 221h-235j programs because they do not have the capital for purchasing and rehabilitating properties. In contrast, CHIP, having an interest-fee loan from its sponsors, could have commenced rehabilitation without an FHA project mortgage. Yet the local FHA office nonetheless demanded that CHIP go through the motions of accepting a project mortgage. In this mock transaction CHIP had to accept a loan which it neither needed nor wanted toward a project mortgage that was cancelled immediately after recording. This mortgage meant financial outlays by CHIP for the preparation of mortgage documents, the acquisition of title insurance and the official recording of the entire procedure. In 1968, CHIP's attorneys communicated with the FHA, questioned the necessity of a project mortgage and requested that this costly process be eliminated. Their request was not granted until the end of 1970 - long after it was possible by regulation for the FHA to have done so.

The CHIP program was also impeded by a local FHA requirement governing the final closing of a CHIP mortgage. In the 221h-235j programs the FHA approved only those projects with four or more rehabilitated units. Until the end of 1968 the local FHA office had made not only approval but the final FHA mortgage closing as well dependent upon a project size of four or more units. This policy endangered CHIP's operation success by obstructing the quick turnover of its sponsors' interest-free loan.

Optimally this loan of CHIP's sponsors would be used for purchasing and rehabilitating properties and would be returned immediately when a federally subsidized mortgage would be granted to the moderate income family purchasing a CHIP house. The local FHA ruling on final mortgage closing hampered this optimal operation in that a delay on one property would delay the closings on the other three properties in that project. In mid 1968 there was a period when further CHIP rehabilitation had to be postponed because these delays had depleted much of the revolving fund. This problem was alleviated in late 1970 when the local FHA office no longer required closings in blocks of four.

The State of New Jersey

The State of New Jersey has greatly aided the CHIP effort. As the rehabilitation program expanded, the State's Department of Community Affairs increased its administrative grant. In CHIP's first, second, third, and fourth years of operation it received state grants of $27,444 $76,329, $70,098 and $116,354 respectively. New Jersey's utilization of its power of eminent domain was also helpful in ameliorating CHIP's property acquisition problem.

The City of Camden

The city of Camden has also cooperated with CHIP's rehabilitation effort. In 1967, Camden's Housing Code Enforcement Office supplied CHIP with a list of properties recommended for rehabilitation. Both Camden's former Mayor, Alfred Pierce and its current Mayor, Ralph Nardi, have supported CHIP's rehabilitation program and have attempted to facilitate municipal cooperation. Also crucial to CHIP's success has been Camden's decision not to reassess the value of a property after its rehabilitation by CHIP.

The problems CHIP did encounter in dealing with Camden's municipal government are mostly attributable to the fragmentation of responsibility and authority among many departments and bureaus. Such fragmentation, for example, resulted in the continued vandalism of one vacant structure owned by CHIP. The property had been given to CHIP by an owner who no longer wanted it. Camden's Tax Office had a record of the former owner's payment of back taxes on the building. Camden's Deed Office, however, had no such record and consequently the City Attorney's Office ruled that CHIP would have to pay the delinquent taxes before it could commence rehabilitation. While CHIP was attempting to resolve the issue of back taxes, the vacant structure was vandalized, thereby increasing the cost of rehabilitation.

CHIP was unable to persuade Camden to amend its building code so that plastic pipe could be used in the rehabilitated houses. Consequently, it has suffered vandalism losses from copper pipe being stolen. The local FHA office made a similar request to the city that plastic be acceptable as a substitute for copper. Although Camden has amended its building code to permit plastic pipe for exterior sewage systems, it still requires copper pipe for interior plumbing and sewage systems--the very areas that are most susceptible to vandalism.

Relationship with Government Agencies:
CHIP and other Rehabilitation Efforts

Other rehabilitation efforts have faced similar difficulties with governmental agencies. The SECD, for example, found FHA mortgage processing to be extremely cumbersome and time consuming. It also encountered

problems in complying with the full specifications of Boston's building and housing codes and, like CHIP, attempted to obtain variances from the local code.[9] And rehabilitation sponsors in New York City in the late 1960s were repeatedly frustrated by the fragmentation resulting from having to deal with five different municipal departments.[10]

[9]Whittlesey, South End Row House, Chapter 5.

[10]Nathan, "Rehabilitation is Not Working As A Resource for Community Development", p. 621.

Chapter IX

THE SPECIFIC REHABILITATION CASE: OPERATION, COSTS AND SUBSIDIES

As of May 30th, 1972, CHIP has rehabilitated over 400 houses, mostly in North Camden. (See Exhibit 9-1) Although CHIP has rehabilitated less units than other rehabilitation efforts, this chapter shows how, according to many criteria, CHIP has been more successful than those efforts. Chapter Nine focusing on the operation of the CHIP program, analyzes the selling and monthly occupancy cost of the CHIP houses as well as the government subsidies that have enabled moderate income families in Camden to purchase the CHIP properties.

OPERATION OF THE REHABILITATION PROGRAM[1]

Estimating the Rehabilitation Cost

After CHIP acquires a vacant house, its architect draws a floor plan of the property showing room dimensions, the location of windows and doors, etc. Bob Nyce then inspects the property and, using the check list displayed in Exhibit 9-2, determines which housing components need either partial or complete replacement and which need only to be repaired. He then estimates the materials and labor needed for the repair-replacement operations and arrives at his projected rehabilitation cost.

Some of Nyce's cost estimates are fairly standard, such as the cost of the heating system; for others, he draws on his long experience as a contractor. His accuracy has been such that his estimates fall within plus or minus 2 percent of the actual costs. In contrast, as Section One noted, other rehabilitation efforts have been far less accurate in estimating rehabilitation costs. (See Exhibit 3-1)

Contract Bidding

Once Nyce completes his estimate, CHIP asks one of its available seven general contractors to submit a bid for rehabilitating the property in question. If the bid is comparable to Nyce's estimate, then that contractor will be awarded the job. If CHIP and the contractor cannot reconcile their differences about rehabilitation cost, then CHIP asks another of its contractors to submit a bid.

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[1]For an examination of the different stages of rehabilitation, see Weinstein, Study Materials on Rehabilitation.

Exhibit 9-1

APPROXIMATE LOCATIONS OF CHIP HOUSES
(EACH DOT REPRESENTS EIGHT HOUSES)

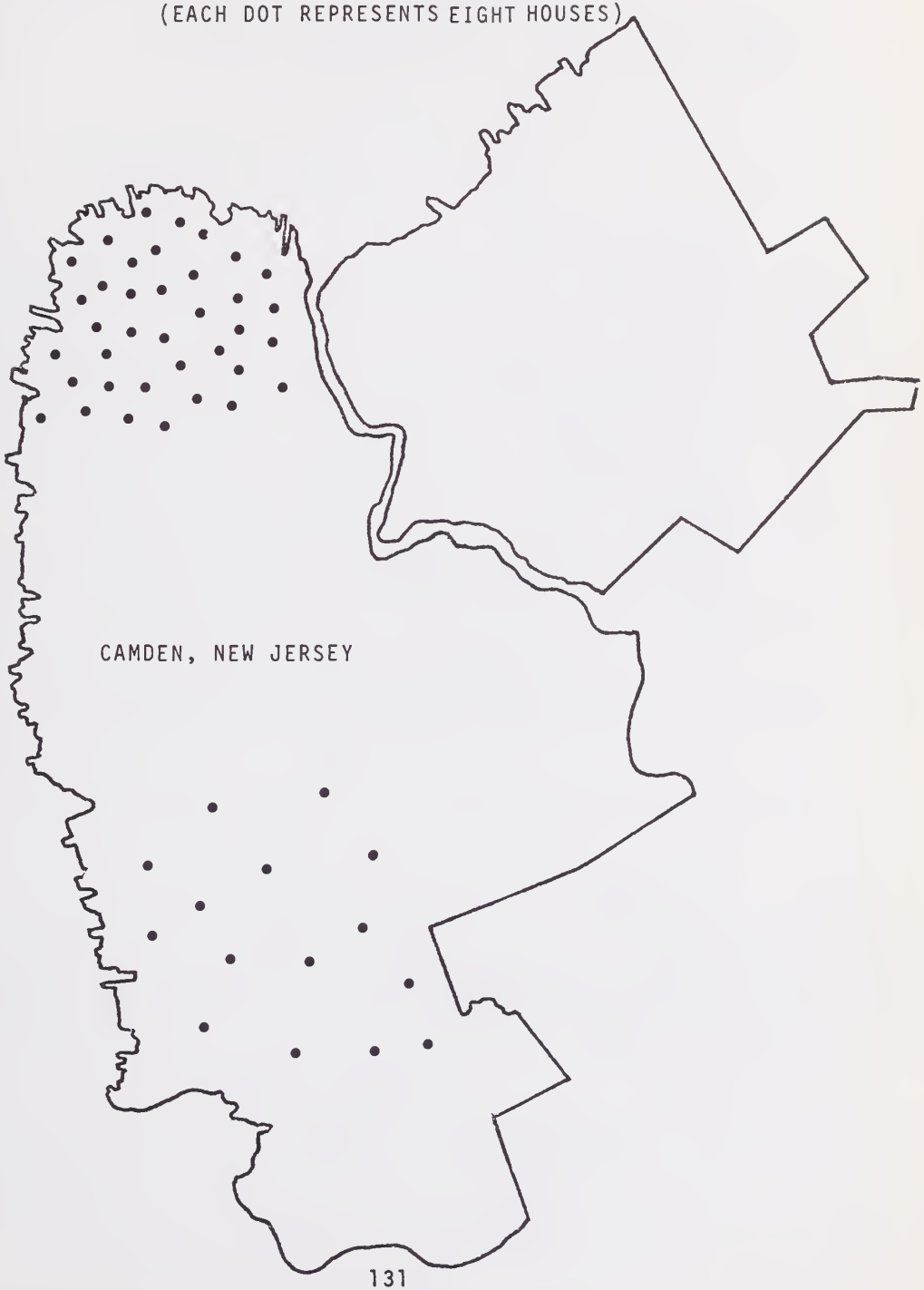

Exhibit 9-2

CHECK LIST USED BY CHIP TO ESTIMATE REHABILITATION COSTS

		House:	Date:	
		LUMBER AND MILLWORK:		
		Front Door	$	
		Rear Door		
		Exterior Locks		
		Pr. Sash		
		Window Frames		
		Interior Door Frames		
		Cellar Stairs		
		Finish Hardware		
		Cellar Windows		
		Rough Lumber		
		Cornice		
		Porch Material		
		Stair Material		
		Base - 1/4 Rd. Trim - Shelving		
		Misc.		
		TOTAL		$
		MASONRY and CONCRETE		
		Front Walk		
		Front Steps		
		Pointing		
		Stucco		
		Lintels		
		Dash Cellar & Whitewash		
		Rear Steps		
		TOTAL		$

Exhibit 9-2 (continued)

CHECK LIST USED BY CHIP TO ESTIMATE REHABILITATION COSTS

C.H.I.P.

House: SPECIFICATIONS INSPECTION Date:

BASEMENT	FLOOR	WALLS	CEILING	WINDOWS		DOORS		
Bast. Stair								
FIRST FLOOR								
Living Room								
Dining Room								
Kitchen								
Stair Hall								
SECOND FLOOR								
Hall								
Bath								
Front BR.								
Rear BR.								
Middle BR.								
THIRD FL. HALL								
Front BR.								
Rear BR.								
Middle BR.								

	Front	Cost		Rear	Cost	
Cover Framework						
Walks						
Walls						
Porch or Shed						
Fence						
Steps						
Iron Rails						
Lintels						
Cornice & Barge						

CELLAR	COMMENTS	COST		COMMENTS	COST	
Floor				Clean Out		
Dash & W.W.				Carpentry PLUS		
Laundry Tray				Labor PLUS		
Heater				Soil Stack		
Hot Water Heater				Roofing		
				Main Stairs		
				Chimney		

Rehabilitation Schedule

A vacant property acquired by CHIP is rehabilitated quite quickly. In some instances, houses have been rehabilitated in as little as six weeks. On the average, though rehabilitation is completed in about ten weeks. In the first three weeks, all rough plumbing and electrical work are done. Sheetrock is installed in the fifth week; the house is painted and wallpapered in the seventh and eighth weeks; and after a final FHA inspection in the ninth week, a prospective buyer should be able to move into a CHIP house.

Quality of the Rehabilitation and Repair of Housing Defects

Overall, the quality of CHIP's rehabilitation work has been excellent. To insure quality control, there is an FHA inspection in the fifth week of construction and one after rehabilitation is completed. Camden's Building Department also inspects the rehabilitated CHIP properties to determine whether they meet the standards established by the city's housing code.

Furthermore, CHIP does not pay the general contractor his full fee until it has inspected and approved the completed construction work. CHIP's field director inspects 36 items, including finishing touches and the general readiness of the house for occupancy.

Notwithstanding these numerous inspections, some CHIP homeowners have complained about the need for major repairs. The Center for Urban Policy Research, Rutgers University, recently interviewed the CHIP homeowners (See Appendix IV) and about half of the 256 CHIP homeowners responding stated that they had had major repair and maintenance problems. In terms of short term CHIP homeowners (those owning a CHIP house two years or less) and long term CHIP homeowners (those owning a CHIP house more than two years), approximately 10 percent of the latter responded that they had encountered major repair problems. (See Exhibit 9-3)

Of those reporting major repair or maintenance problems, the most frequently mentioned problem was water damage resulting from leaky basements and defective roofs. Other recuring problems were heating difficulties and stuffed sewers. There was little difference in the repair and maintenance problems noted by long and short term CHIP homeowners, except that a slightly higher percentage of the former mentioned roof or basement water damage. (See Exhibit 9-4)

Nature of Problems Encountered with the CHIP Houses

Many of the above mentioned problems cited by CHIP homeowners are not the result of inferior workmanship and quality, but rather local conditions beyond the control of CHIP. Water damage in basements, for example, by no means a problem unique to CHIP homes, is a problem

Exhibit 9-3

HAVE YOU HAD ANY MAJOR REPAIR OR MAINTENANCE PROBLEMS?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Yes	81	50.9	58	59.8	139	54.3
No	77	48.4	38	39.2	115	44.9
No Response/ Don't Know	1	.6	1	1.0	2	.7
Total	159	99.9[1]	97	100.0	256	99.9[1]

[1] Does not equal 100 percent because of rounding

Source: Interview of CHIP Homeowners by the Center for Urban Policy Research, Rutgers University. Hereafter referred to as CUPR Interview.

Exhibit 9-4

MAJOR REPAIR AND MAINTENANCE PROBLEMS ENCOUNTERED BY CHIP HOMEOWNERS

Repair or Maintenance Problem	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Roof or basement water damage	30	37.0	29	50.0	59	42.4
Sewer Problems (i.e. stuffed sewers)	10	12.3	4	6.9	14	10.1
Heating Problems (i.e. inadequate heat)	7	8.6	4	6.9	11	7.9
Plumbing Problems (i.e. inadequate pressure)	2	2.5	-	-	2	1.4
Problems with Doors - Windows	8	9.9	2	3.4	10	7.2
Other	24	29.6	19	32.8	43	30.9
Total	81	99.9	58	100.0	139	99.9

Source: CUPR Interview

encountered by many non-CHIP homeowners in the Camden area. Bob Nyce, who has constructed scores of houses in Camden and its suburbs over the past 30 years, has informed the writer that given the local soil conditions and the almost sea-level elevation in many areas in the Camden area, it is almost impossible to construct a house that will not suffer some water damage after a heavy rain.

Other repair and maintenance problems in the CHIP houses are the result of homeowner negligence. For example, CHIP homeowners are supposed to clean their gas heater filters at least once a year; failure to do so has frequently resulted in malfunctioning heaters. Similarly, sewers in CHIP houses have sometimes clogged because CHIP homeowners have not periodically cleaned them.

Generally, however, the quality of CHIP's rehabilitation work has been superior to that of other rehabilitation efforts. A report by the Urban Planning Aid, a planning group in Cambridge, on the quality of the rehabilitated BURP houses, noted that there were holes in walls, crumbling chimneys, rotting floor boards, inoperable or missing locks, and other defects.[2] Although the FHA contended that many of these criticisms were unfounded, it did concede that in BURP "there are and were areas where the workmanship leaves much to be desired."[3]

CHIP's Repair of Defects in Rehabilitated Houses

In most instances CHIP will repair defects that arise in the houses it sells. A CHIP property has a ten-year warranty on the roof and a one-year guarantee on the gas feeder and motor; CHIP has already replaced defective roofs, gas feeders and motors that have been defective. It has also adjusted such defects as doors coming loose from their hinges as a result of hard homeowner usage--defects that a conventional builder would consider outside the scope of his liability. In fact, where there has been a threat to health, CHIP has made repairs for which it was not liable, e.g., replacing a three-year-old gas heater that broke in the middle of the winter.

Marketing the Rehabilitated Properties

When CHIP began its rehabilitation activities, it was confronted with the problem of marketing a "new" product. Because CHIP's effort was the first of its kind in Camden, some of the moderate income families in Camden suspected the motives of its sponsors and were therefore hesitant about buying CHIP houses.

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[2]Urban Planning Aid, "An Evaluation of the Boston Rehabilitation Program," Cambridge, September, 1968, p. 64-65.

[3]FHA internal memorandum from John Makinen to James Feeley, "Evaluation of the Boston Rehabilitation Program," September 29, 1969, pp. 1-2. Cited in Keyes, Boston Rehabilitation Program, p. 148.

To allay these fears, in the fall of 1967, CHIP held an open house in one of the first properties it rehabilitated. Neighborhood residents were invited to tour the house and to ask any questions they had about the CHIP program. In the next two years, CHIP held a number of open houses and it also prepared and distributed to neighborhood residents a brochure describing its program and its rehabilitated houses. It also posted large signs in front of houses under rehabilitation so that Camden residents would know that CHIP was renovating houses in the city.

Today CHIP has no problem in selling its houses. There are almost invariably three or four buyers for every CHIP house; and most are sold even before they are ready for occupancy.

To a large extent the houses are self-marketing. Most CHIP homeowners have learned about the CHIP program from friends and relatives who own CHIP houses. Of 256 CHIP homeowners surveyed, almost sixty percent said they learned of CHIP from relatives and friends, sixty percent of whom owned CHIP houses. Other frequently mentioned sources of information about CHIP were the Camden Welfare Department and CHIP employees. (See Exhibits 9-5 and 9-6)

CHIP's marketing success story is attributable to the fact that it offers attractive housing at a comparatively low cost to families dissatisfied with their existing housing. Both long and short term CHIP homeowners cited as principal reasons for having left their previous dwelling: inadequate landlord service or maintenance, the need for larger quarters and the desire to own their own house (See Exhibit 9-7). Their principal reasons for buying a CHIP house are: the low price of the CHIP houses and the fact that they had to move from their previous residence. Interestingly, only about one-tenth cited their desire to own their residence as their reason for buying a CHIP house. (See Exhibit 9-8)

Selling Price

In CHIP's fourth year of operation (1970-1971) the average selling price of a three-bedroom CHIP house was $12,600. In the same year, the average selling price of all houses rehabilitated by CHIP (from two to five bedrooms) was $13,200. In Camden it is extremely difficult to purchase houses in such "as new" condition for a comparable price.

CHIP's selling price is less than the per-unit price (or cost) of a number of other rehabilitation efforts. In 1968 the FHA calculated that the rehabilitation cost[4] for row houses[5] in New York City and

[4]Includes property acquisition and construction costs and such other expenditures as financing charges and taxes.

[5]Rehabilitated under the FHA 220, 221(h) and 221(d) (3) programs (See Exhibit 1-4)

Exhibit 9-5

HOW DID YOU FIND OUT ABOUT CHIP?

Response	Short Term CHIP Homeowner No.	Percent	Long Term CHIP Homeowner No.	Percent	Total No.	Percent
Relative (See Exhibit 9-6)	24	15.0	10	10.4	34	13.3
Friend (See Exhibit 9-6)	74	46.2	42	43.8	116	45.3
Newspaper	8	5.0	8	8.3	16	6.3
Radio	-	-	1	1.0	1	.4
Welfare Department	18	11.2	11	11.5	29	11.3
Office of Economic Opportunity	4	2.5	-	-	4	1.6
CHIP employee	14	8.7	13	13.5	27	10.5
Other	13	8.1	11	11.5	24	9.4
No response/Don't know	5	3.1	-	-	5	2.0
Total	160	99.8	96	100.0	256	100.1

Source: CUPR Interview

Exhibit 9-6

IF YOU FOUND OUT ABOUT CHIP FROM FRIENDS OR RELATIVES, ARE THEY CHIP HOMEOWNERS?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No	Percent
Yes	63	64.3	27	51.9	90	60.0
No	34	34.7	24	46.2	58	38.7
No response/Don't know	1	1.0	1	1.9	2	1.3
Total	98	100.0	52	100.0	150	100.0

Source: CUPR Interview

Exhibit 9-7

WHY DID YOU MOVE FROM YOUR PREVIOUS APARTMENT OR HOUSE?

Response	Short Term CHIP Homeowner No.	Percent	Long Term CHIP Homeowner No.	Percent	Total No.	Percent
Previous dwelling demolished	19	11.9	10	10.4	29	11.3
Inadequate landlord, service or maintenance	45	28.1	28	29.2	73	28.5
Previous rent or mortgage payment too high	9	5.6	4	4.2	13	5.1
Needed larger quarters	49	30.6	20	20.8	69	27.0
Wanted to own house	22	13.7	23	24.0	45	17.6
Other	13	8.1	10	10.4	23	9.0
No response/Don't know	3	1.9	1	1.0	4	1.6
Total	160	99.9	96	100.0	256	100.1

Source: CUPR Interview

Exhibit 9-8

WHY DID YOU BUY A CHIP HOUSE?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Low Price	39	24.4	27	28.1	66	25.8
Well built and equipped	15	9.4	13	13.5	28	10.9
Wanted to own house	17	10.6	11	11.5	28	10.9
Had to move from prior residence	50	31.2	24	25.0	74	28.9
Other	37	23.1	13	13.5	50	19.5
No response/Don't know	2	1.2	8	8.3	10	3.9
Total	160	99.9	96	99.9	256	99.9

Source: CUPR Interview

Pittsburgh were $20,000 and $16,000 respectively.[6] In Amity I--a rehabilitation effort in Newark--the combined development and construction costs of a rehabilitated three-bedroom unit was $16,000.[7]

Cost Increases

Not only has CHIP's per-unit cost been lower than that of numerous other rehabilitation efforts, but over the five-year CHIP program, the average selling price of a CHIP house has increased only 18 percent--a smaller increase than on other rehabilitation projects. In its first year of operation the average selling price of a CHIP house was $10,800; in the fourth year it increased to $13,200. By contrast, for example, in November, 1967, the sponsors of Amity I estimated that its total cost per unit would be $11,500. Be December, 1968, Amity's cost per unit was estimated at $13,600 and by July, 1969, Amity's per-unit cost was $16,000--an almost fifty percent increase from the November, 1967 estimate.[8]

Since CHIP's property acquisition costs have remained fairly constant since it began its rehabilitation activities the major cause of the price increase of a CHIP property is rising construction costs. The latter are a result of: inflation, and the lower quality of the properties that CHIP has purchased.

Inflation

The 1967-71 period saw a high level of inflation, especially in the construction industry. CHIP's subcontractors were forced to raise their wages and to pay higher prices for certain construction materials, especially lumber. In turn, these subcontractors have charged CHIP more for rehabilitating the vacant properties.

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[6] President's Committee on Urban Housing, A Decent Home, p. 101.

[7] Burchell, Hughes and Sternlieb, Housing Costs and Housing Restraints, p. 73.
Development costs are the initial expenses incurred on a project not directly related to the construction process and typically include land acquisition, design and engineering, interim financing and demolition expenses. Construction costs are the initial expenses incurred on a project and directly related to the construction process. Construction costs include site preparation, utility installation, residential construction and landscaping and paving. See Burchell, Hughes and Sternlieb, Housing Costs and Housing Restraints, pp. 63-64.

[8] Ibid., pp. 84-94.

Declining Property Quality

Partially as a result of CHIP's rehabilitation activities, in North and South Camden the resale market for properties has improved to the extent that certain vacant properties in good condition are now priced above the maximum that CHIP will pay for a house, (approximately $2000 for a five-bedroom structure). Consequently, CHIP has repeatedly been forced to purchase properties in worse condition than those it has previously been able to obtain. The declining quality of the houses purchased for rehabilitation has forced construction costs to increase.

CHIP Property Cost Increases: Impact on the Monthly Amortization Cost

Although CHIP's construction costs have increased about 18 percent since 1967, they have resulted in only a small increase in the monthly amortization cost of a CHIP house. Under the 235J program, a CHIP homeowner can obtain a 40-year mortgage with an interest rate as low as one percent. With such a mortgage the monthly amortization on a $10,800 CHIP property (the average selling price of CHIP properties in 1967-68) was $27. Even though the price of an average CHIP house increased to $13,200 in 1970-71, the monthly principal and interest payment with a 40-year one percent mortgage increased only $6--from $27 to $33.

Monthly Occupancy Cost

The monthly occupancy cost of the CHIP properties has also been quite low. In 1970-71 the monthly carrying cost on the average $13,200 CHIP property was $132. On the average three-bedroom CHIP property with a $12,600 selling price, the carrying cost was $126. The components of the monthly occupancy cost are listed in Exhibit 9-9.

For about half of the CHIP homeowners, the monthly occupancy cost of their CHIP house is more than the monthly occupancy cost of their prior residence. For about one-quarter, the cost is the same and for another quarter the CHIP house costs less per month than their prior residence. (See Exhibit 9-10)

The monthly occupancy cost of a CHIP house is low because of subsidies from the federal government, the state of New Jersey, CHIP's sponsors and other individuals. Although the federal mortgage term and interest-rate subsidies are the most crucial, the other subsidies hav- also been important in reducing the monthly carrying cost of a CHIP house.

Exhibit 9-9

MONTHLY OCCUPANCY COST OF CHIP HOUSES
1970-71

Cost Component	Cost on Average $13,200 CHIP House	Cost on Average $12,600 3 bedroom CHIP House
Interest and amortization [1]	$ 33	$ 32
Property tax [2]	29	29
Utilities [3]	33	30
Maintenance [4]	27	25
Mortgage insurance premium	5	5
Fire and theft insurance [5]	5	5
Total	132	126

[1] With a 40 year 235J mortgage with a one-percent interest rate

[2] $\frac{.0704 \times \$5000}{12}$ assuming a CHIP house is assessed at $5000 and taxed at Camden's 1971 Property Tax rate of .0704

[3] Utility cost for $13,200 house based on interview of CHIP homeowners. Utility cost of three-bedroom CHIP house estimated by CHIP's staff.

[4] See 3

[5] With $60 annual premium for insurance from the New Jersey Insurance Underwriting Association.

Exhibit 9-10

MONTHLY OCCUPANCY COST OF CHIP HOUSE AS COMPARED TO MONTHLY OCCUPANCY COST OF PRIOR RESIDENCE OF CHIP HOMEOWNER

As Compared to the Monthly Occupancy Cost of your Prior Residence Monthly Occupancy Cost of your CHIP House is	No.	Percent
Much more	88	34.4
Little more	37	14.5
Little less	40	15.6
Much less	30	11.7
Same	60	23.4
No response/Don't know	1	.4
Total	256	100.0

Source: CUPR Interview

REHABILITATION SUBSIDIES

Federal Subsidies

The long term--40 years--of the federal 235J mortgages available to CHIP homeowners has the effect of an important federal subsidy by reducing the monthly amortization payment. In tandem with this is a reduction in the monthly mortgage interest rate.

Effect of the Rate and Term of a Mortgage on the Monthly Amortization Payment

The following example illustrates the effect of reducing mortgage interest rates: On a $1,000 mortgage with a 10-year term, a one-third reduction of the interest rate from six to four percent reduces the amount of each monthly amortization payment by about nine percent (from $11.10 to $10.12)[9]

Monthly payments would also be reduced if the same interest rate were maintained but the term of the mortgage were lengthened. Using our example, if we doubled the duration of the six percent mortgage from 10 to 20 years we would reduce each monthly amortization payment by about 36 percent (from $11.10 to $7.16). The aggregate amortization expense, however, will rise by 29 percent from $1,332 ($11.10 multiplied by 120) to $1,718 ($7.16 multiplied by 240). The feasibility of low income ownership, however, depends on a low monthly mortgage payment.

A large reduction in the monthly payment can be realized by a combined action that reduces the interest rate while lengthening the mortgage term. Using our example, again, if we reduce the interest rate by one-third (from six to four percent) and double the term (from 10 to 20 years) we can reduce the monthly amortization by 45 percent (from $11.10 to $6.06).

Length of the 235J Mortgage: Impact on Monthly Amortization Costs

Assuming that the minimum market mortgage interest rate obtainable on a $13,200 CHIP mortgage is eight percent with a 20-year term, the monthly amortization payment would be $112. With the same eight percent interest rate, but with a longer term, i.e., 40 years, such as is available with the 235J program, the monthly amortization payment would be $92, almost one-fifth lower. (See Exhibit 9-11) The 40-year term of a 235J mortgage amounts to a subsidy in that it is based on an economic, fiction, namely, that a rehabilitated property in North Camden will still function as a dwelling unit 40 years hence.

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[9]Ernest Fisher and Robert Fisher, Urban Real Estate (New York: 1954), pp. 382-383.

Exhibit 9-11

EFFECT OF FEDERAL, STATE, AND SPONSOR SUBSIDIES ON REDUCING THE MONTHLY AMORTIZATION COST[1] OF A CHIP HOUSE

Subsidy	Monthly amortization on average $13,200 CHIP mortgage with subsidy	Without Subsidy	Monthly amortization on average $13,200 CHIP mortgage without subsidy
Federal			
40 year mortgage	$92[2]	Maximum 20 year mortgage	$112[2]
Interest rate reduction to one percent	$33[3]	Mortgage interest rate of 8 percent	$ 92[3]
Making par mortgage funds available (Secondary mortgage market activities of GNMA)	$33[4]	CHIP would have to pay 8 "points" to private mortgage of 235J mortgage, increasing mortgage to $14,256	$ 36[4]
State			
Administrative grant	$33[4]	CHIP's administrative costs of $1,100 per house (1970-71) would have to be paid by CHIP homeowner, increasing CHIP mortgage to $14,300	$ 36[4]
Sponsors			
Non-interest loan of CHIP's sponsors	$33[4]	Construction loan with financing cost of $566 would have to be made, increasing CHIP mortgage to $13,766	$ 35[4]

[1]Does not include mortgage insurance premium

[2]With 8 percent mortgage interest rate

[3]With 40 year mortgage

[4]With 40 year mortgage term and 1 percent interest rate

Interest Rate of the 235J Mortgage: Impact on the Monthly Amortization Costs

Monthly debt service on the CHIP house is reduced even further because the 235J program provides the CHIP homeowner with a lower-than-market interest rate. Under the 235J program, the federal government subsidizes the interest rate on the mortgage of a rehabilitated property; depending on the income of the low income mortgagor, his interest payment is reduced anywhere from three to one percent.

These interest reductions have a significant impact upon the monthly amortization payment. The monthly principal and interest payment on a $13,200 CHIP mortgage with an eight percent interest rate and a 40-year term would be $92. The same mortgage with a three percent interest rate would demand a $47 monthly payment--a reduction of approximately fifty percent. With a one percent mortgage, the monthly amortization payment would be $33--approximately one-third of the $92 figure. (See Exhibit 9-11) Clearly, there could be no CHIP program without the federal interest subsidy; low income families could not afford a monthly amortization payment of $92, to which would have to be added property taxes and other expenditures.

Secondary Mortgage Market Activities of GNMA: Impact on Monthly Amortization Costs

The federal government has further subsidized CHIP's rehabilitation program by making par mortgage funds available on some of the CHIP mortgages. When the 235J program was enacted in 1968, it was envisioned that private banks and other lending institutions would grant the 235J mortgages, and that the interest payments on these mortgages would be subsidized by the federal government. Because the 1970-71 maximum FHA allowable interest rate of approximately 7.5 percent on the 235J mortgages was not competitive, mortgagees demanded the payment of "points" from CHIP, a cost that CHIP would have had to pass on to its home buyers. On a $13,200 CHIP property the payment of eight points would have resulted in an additional cost of $1056. At a three percent rate and a 40-year term, this increase would mean a nine percent rise in monthly amortization payment--from $47 to $51. With a one percent rate, there would also be a nine percent increase--from $33 to $36. (See Exhibit 9-11) Even such small increases as these have been unnecessary because of the availability of low-interest rate FHA mortgages, such as 235J mortgages, as a result of the mortgage marketing activities of the Government National Mortgage Association (GNMA).

State Subsidy

The state of New Jersey has also subsidized the CHIP program. Since January 1968, CHIP has recieved a grant to defer its administrative expenses from the New Jersey Department of Community Affairs. In 1970-71 the state administrative grant had a value of almost $1100 per completed house which would otherwise have had to have been absorbed by the CHIP homeowner. Given a three percent mortgage

interest rate and a 40-year term, this $1100 increase in the average $13,200 CHIP mortgage to $14,300 would have increased the monthly amortization payment by nine percent--from $47 to $51. Given a one percent rate, there would have been a $3.00 increase--from $33 to $36. (See Exhibit 9-11)

The state administrative grant is not nearly as important a subsidy as the federal interest-and-term subsidy which reduces the monthly amortization on a $13,200 mortgage by almost two-thirds.[10] The effect of the state administrative grant on monthly amortization payments is about the same as that of the secondary mortgage market activities of GNMA; both reduce the monthly payments by less than ten percent.

Sponsor Subsidy

The monthly occupancy cost on a CHIP house is also reduced by the non-interest loan fund of CHIP's sponsors. In CHIP's first year of operation, the sponsors' initial $100,000[11] interest free loan reduced CHIP's cost $10,000 or $500 per completed house. The savings resulting from the fact that CHIP did not need to take out high interest, short-term loans for construction purposes, the cost of which would had to have been passed directly along to the CHIP homeowner.

In 1970-71, the interest-free loan which had grown to $600,000 reduced CHIP's costs by approximately $60,000--a saving to the purchaser of $556 per completed house. (See Exhibit 9-11). True this savings was a small one-on a $13,200 CHIP mortgage with a three or one percent interest rate and a 40-year term; a $566 increase in the mortgage amount to $13,766 would increase the monthly debt service payment by only $2.00 and $1.00, respectively. CHIP's sponsors, however, have reduced costs in other ways besides providing the interest-free loan.

CHIP is able to purchase appliances at wholesale prices because it buys them in bulk; they are then stored in a building owned by one of the sponsors. CHIP's sponsors have also provided valuable counsel on financial and other matters. The dollar value of such services is difficult to calculate, yet undoubtedly these services helped reduce the cost of the rehabilitated properties.

Other Subsidies

The cost of a CHIP house to a low-income buyer is also reduced because many of the individuals and corporations who help process CHIP mortgages accept lower than normal fees. For example, the mortgage service

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[10] From $112 (the monthly amortization with a 20-year eight percent mortgage) to $33 (the monthly amortization with a 40-year one percent mortgage).

[11] Assuming a ten percent interest rate for a construction loan.

company utilized by CHIP charges $35 per loan--$100 less than the going rate. The title insurance company utilized by CHIP charges $135 for insuring the initial acquisition and final sale--about $50 less than the market value of this service. CHIP's attorney and architect also charge a reduced fee for their services. These lower than normal fees, although far less important than the aforementioned subsidies, do contribute to the reduced selling price of the CHIP house.

Camden has not directly subsidized the CHIP program, but its policy of not raising the assessed value of the properties rehabilitated by CHIP has been crucial in keeping the monthly carrying cost of a CHIP property within reach of moderate income families. As noted, the property tax rate in Camden is relatively high-the 1971 general property tax rate in Camden was .0704 as compared to a 1971 state average property tax rate of .0528. (These are the general and not the equalized tax rates.) If Camden were to consider CHIP's $11,000 rehabilitation cost as adding $11,000 to the value of the rehabilitated properties, and assuming that the unrehabilitated CHIP property was assessed at $5,000 then the annual property tax on a rehabilitated CHIP property would be $931. Monthly tax payments on this figure would be $78 per month, making it economically unfeasible for a low or moderate income family to own a CHIP house. (See Exhibit 9-12) In practice, however, Camden does not reassess a property after it is rehabilitated by CHIP and consequently, the annual property tax is $352 ($5,000 X .0704). This latter tax amounts to a monthly property tax of $29, which is feasible for a low-income family to pay.

Exhibit 9-12

THEORETICAL PROPERTY TAX ON REHABILITATED CHIP PROPERTY

$ 5,000[1]	Assessed value of unrehabilitated CHIP property
$ 8,231[2]	Additional assessed value after $11,000 CHIP rehabilitation
$13,231	Total assessed value of rehabilitated CHIP property
x .0704	Camden's 1971 property tax
$ 931	Total annual property tax on rehabilitated CHIP property
$ 78	Monthly property tax $\frac{\$931}{12}$

[1] Estimate of CHIP staff.

[2] $11,000 x 74.83 (Camden's average ratio of assessed to true value of real property was 74.83% in 1971. This calculation assumes that Camden would consider the approximate $11,000 CHIP rehabilitation as adding $11,000 to the value of the CHIP house.

Chapter X

AN EVALUATION OF REHABILITATION: WHO IS BEING SERVED, IMPACT OF THE PROGRAM

This chapter studies the consumers of CHIP's services, how they have responded to home ownership and whether they are satisfied with their rehabilitated houses. Also considered is CHIP's impact on the neighborhoods where rehabilitation was effected.

WHO IS REHABILITATION SERVING?

Place of Birth and Origin

Approximately 28 percent of the CHIP homeowners were born in New Jersey (See Exhibit 10-1) and of these, 65 percent were born in Camden. Almost one-third were born in southern states and 27 percent in Puerto Rico. In terms of their place of birth and prior residence, there was little difference between short and long term CHIP homeowners, except that a slightly higher percentage of the latter were born in New Jersey.

Of those who were not born in Camden, most had experienced urban life before migrating to Camden--33 percent in a large city and 15 percent in a small city. (See Exhibit 10-2) The largest percentage of the homeowners surveyed--both long and short term--had lived in a southern state just before moving to Camden. (See Exhibit 10-3) Among the reasons for their migration to Camden were the desire to live near relatives there and the hope of finding employment. (See Exhibit 10-4)

Length of Residence in Camden

To obtain CHIP approval, an applicant must have lived in Camden at least one year. Most CHIP homeowners have lived in Camden for a considerably longer period of time. Over 60 percent of those interviewed had lived in Camden for ten or more years. As compared to short term CHIP homeowners, long term CHIP homeowners have lived in Camden for a longer period of time. Almost half of the former group have lived in Camden nine years or less as compared to one-quarter for the latter group. (See Exhibit 10-5)

Most of the CHIP homeowners surveyed had lived in North or South Camden immediately prior to purchasing a CHIP house; 55 percent of those interviewed had lived in North Camden, 30 percent in South Camden, and the rest in other Camden neighborhoods.

Exhibit 10-1

WHERE WERE YOU BORN?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
New Jersey	37	23.1	35	36.5	72	28.1
Pennsylvania	13	8.1	9	9.4	22	8.6
Puerto Rico	47	29.4	21	21.9	68	26.6
Other northern or western state	5	3.1	3	3.1	8	3.1
Southern state	58	36.2	28	29.2	86	33.6
Total	160	99.9	96	100.1	256	100.0

Source: CUPR Interview

Exhibit 10-2

WHAT TYPE OF PLACE DID YOU LIVE IN PRIOR TO COMING TO CAMDEN?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Large city	45	33.3	24	32.4	69	33.0
Small city	19	14.1	13	17.6	32	15.3
Small town	50	37.0	29	39.2	79	37.8
Rural	17	12.6	7	9.5	24	11.5
No response/Don't know	4	3.0	1	1.4	5	2.4
Total	135	100.0	74	100.1	209	100.0

Source: CUPR Interview

Exhibit 10-3

WHICH STATE DID YOU LIVE IN JUST BEFORE COMING TO CAMDEN?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Pennsylvania	18	13.3	11	14.9	29	13.9
New York	16	11.9	5	6.8	21	10.0
Puerto Rico	33	24.4	16	21.6	49	23.4
Other northern or western state	6	4.4	3	4.1	9	4.3
Southern state	49	36.3	25	33.8	74	35.4
New Jersey outside of Camden	10	7.4	12	16.2	22	10.5
No response/Don't know	3	2.2	2	2.7	5	2.4
Total	135	99.9	74	100.1	209	99.9

Source: CUPR Interview

Exhibit 10-4

WHY DID YOU MOVE TO CAMDEN?

Response	No.	Percent
Employment	47	22.5
Family came here (or was here)	71	34.0
Marriage	23	11.0
Housing	16	7.7
Other	34	16.3
No response/Don't know	18	8.6
Total	209	100.1

Source: CUPR Interview

Exhibit 10-5

HOW LONG HAVE YOU LIVED IN CAMDEN?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Less than 1 year	2	1.2	-	-	2	.8
1-2 years	17	10.6	1	1.0	18	7.0
3-4 years	25	15.6	6	6.3	31	12.1
5-9 years	29	18.1	18	18.8	47	18.4
10-14 years	23	14.4	19	19.8	42	16.4
15 years or over	38	23.7	29	30.2	67	26.2
Always lived here	25	15.6	22	22.9	47	18.4
No response/Don't know	1	.6	1	1.0	2	.8
Total	160	99.8	96	100.0	256	100.1

Source: CUPR Interview

Size and Race of Rehab Families

CHIP is predominantly housing large black families headed by females. of those surveyed, the mean family size was 5.6 members. More than two-thirds of the CHIP homeowners were black and 27 percent were Puerto Rican. (See Exhibits 10-6 and 10-7)

CHIP's staff believes that as compared to two years ago, more Puerto Ricans are purchasing CHIP houses than blacks. This finding is somewhat substantiated by our interviews which showed that a slightly larger percentage of the long term CHIP homeowners were black, as compared to the short term CHIP homeowners.

Age, Education, Sex and Marital Status

About half of the heads of CHIP households interviewed were between 19 and 36 years old. About one-quarter had completed one to eight years of education and one-half had completed nine to twelve years of education. (See Exhibits 10-8 and 10-9)

Most of the CHIP families--72 percent of those interviewed--are headed by females. (See Exhibit 10-10) Almost one-third of the CHIP heads of household are married, one-third are separated, and one-fifth are single. (See Exhibit 10-11)

Public Assistance, Employment and Income

Most CHIP homeowners receive some type of public assistance--of those interviewed, 84 percent recieve some type of public assistance. For both long and short term CHIP homeowners, the predominant type of assistance was Aid to Dependent Children. (See Exhibit 10-12)

Among our survey respondents, 103 (40 percent) were employed within the last year. Of those employed, 67 (65 percent) had been employed full time. The types of employment of the CHIP homeowners are listed in Exhibit 10-13.

The average income of the CHIP homeowner is $4,780 per year.

The CHIP Family Compared With Other Rehab Families

CHIP homeowners share some of the characteristics of the tenants and homeowners in other rehabilitation efforts--namely; that they are on welfare and that they have previously lived in the rehabilitation neighborhood. (See Exhibit 10-14)

Exhibit 10-6

CHIP HOMEOWNER FAMILY SIZE

Members in Household	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
1 - 2	9	5.6	4	4.2	13	5.1
3 - 4	63	39.4	27	28.1	90	35.2
5 - 6	43	26.9	32	33.3	75	29.3
7 - 8	29	18.1	17	17.7	46	18.0
9 - 10	11	6.8	11	11.5	22	8.6
11 - 12	4	2.5	2	2.1	6	2.3
More than 12	1	.6	3	3.1	4	1.6
Total	160	99.9	96	100.0	256	100.0

Source: CUPR Interview

Exhibit 10-7

RACE OF CHIP HOMEOWNERS

Race	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
White (Non Puerto Rican)	1	.6	1	1.0	2	.8
Black	101	63.1	70	72.9	171	66.8
Puerto Rican	49	30.6	20	20.8	69	27.0
No response/ Don't know	9	5.6	5	5.2	14	5.5
Total	160	99.9	96	99.9	256	100.1

Source: CUPR Interview

Exhibit 10-8

HEAD OF CHIP HOUSEHOLD: LEVEL OF EDUCATION COMPLETED

Years of Education Completed	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
No formal academic education	1	.6	-	-	1	.4
1 - 8 years	43	26.9	23	24.0	66	25.8
9 - 12 years	71	44.4	49	51.0	120	46.9
13 - 18 years	2	1.2	7	7.3	9	3.5
Trade school	2	1.2	-	-	2	.8
No answer/Don't know	41	25.6	17	17.7	58	22.7
Total	160	99.9	96	100.0	256	100.1

Source: CUPR Interview

Exhibit 10-9

AGE OF HEAD OF CHIP HOUSEHOLD

Age Last Birthday	Short Term CHIP Homeowners No.	Percent	LONG TERM CHIP Homeowners No.	Percent	Total No.	Percent
19 - 25	34	21.2	7	7.3	41	16.0
26 - 36	56	35.0	30	31.3	86	33.6
37 - 47	34	21.2	35	36.5	69	27.0
48 - 57	13	8.1	9	9.4	22	8.6
58 - 67	5	3.1	2	2.1	7	2.7
58 and over	-	-	2	2.1	2	.8
No answer/Don't know	18	11.2	11	11.5	29	11.3
Total	160	99.8	96	100.2	256	100.0

Source: CUPR Interview

Exhibit 10-10

SEX OF HEAD OF CHIP HOUSEHOLD

Sex	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Male	37	23.1	33	34.1	70	27.3
Female	122	76.2	62	64.6	184	71.9
No response/Don't know	1	.6	1	1.0	2	.8
Total	160	99.9	96	99.7	256	100.0

Source: CUPR Interview

Exhibit 10-11

MARITAL STATUS OF HEAD OF CHIP HOUSEHOLD

Marital Status	Short Term CHIP HOMEOWNERS No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Married	45	28.1	33	34.4	78	30.5
Widowed	9	5.6	7	7.3	16	6.3
Divorced	8	5.0	4	4.2	12	4.7
Separated	57	35.6	25	26.0	82	32.0
Single	27	16.9	22	22.9	49	19.1
No answer/Don't know	14	8.7	5	5.2	19	7.4
Total	160	99.9	96	100.0	256	100.0

Source: CUPR Interview

Exhibit 10-12

WHAT TYPE OF ASSISTANCE ARE YOU RECEIVING FROM WELFARE?

Response	Short Term CHIP Homeowner		Long Term CHIP Homeowner		Total	
	No.	Percent	No.	Percent	No.	Percent
Aid to Dependent Children	118	73.8	59	61.5	177	69.1
Old Age Assistance	1	.6	1	1.0	2	.8
Aid to Disabled	4	2.5	1	1.0	5	2.0
Aid to Dependent Children of Unemployed Parents	3	1.9	4	4.2	7	2.7
General assistance	7	4.4	4	4.2	11	4.3
Veteran's benefits	2	1.3	1	1.0	3	1.2
Other	5	3.1	5	5.2	10	3.9
Not receiving any assistance	20	12.5	20	20.8	40	15.6
No response/Don't know	-	-	1	1.0	1	.4
Total	160	100.1	96	99.9	256	100.0

Source: CUPR Interview

Exhibit 10-13

OCCUPATIONS OF CHIP HOMEOWNERS

Occupation	Short Term CHIP Homeowners		Long Term CHIP Homeowners		TOTAL	
	No.	Percent	No.	Percent	No.	Percent
Professional-technical	3	5.5	5	10.4	8	7.8
Manager-official-proprietor	-	-	1	2.1	1	1.0
Clerical	2	3.6	2	4.2	4	3.9
Sales worker	2	3.6	2	4.2	4	3.9
Craftsman, foreman and kindred	5	9.1	5	10.4	10	9.7
Operator and kindred	15	27.3	12	25.0	27	26.2
Service workers excluding private household	20	36.4	20	41.7	40	38.8
Laborer, excluding farmer and miner	8	14.5	1	2.1	9	8.7
Total	55	100.0	48	100.1	103	100.0

Source: CUPR Interview

Exhibit 10-14

SOCIO-ECONOMIC COMPARISON OF TENANTS AND HOMEOWNERS
IN FOUR REHABILITATION EFFORTS

Rehabilitation Project	Percentage homeowners or tenants receiving public assistance	Percentage homeowners or tenants from rehabilitation neighborhood	Mean Income	Percentage households headed by female	Mean family size
CHIP*	84	85	$4,780	72	5.6
RRDP*	84	***	***	***	***
SECD*	72	84	$3,200	66	3.0
AMITY I**	4	42	$8,200	33.3	4.0

*Homeowners or tenants of different size units -- efficiency to five bedrooms

**Based on sample of 24 applications for three bedroom units

***Information not available

Sources: CHIP homeowner applications, Institute of Public Administration, Rapid Rehabilitation of Old Law Tenements: An Evaluation, (New York: 1968). Robert Whittlesly, The South End Row House and Its Rehabilitation for Low-Income Residents. (Boston: 1969). Robert Burchell, James Hughes and George Sternlieb. Housing Costs and Housing Restraints: Newark, New Jersey (New Brunswick, 1970).

REHABILITATION HOMEOWNER PERFORMANCE

Contrary to the commonly held belief that low income families make poor homeowners[1], the families purchasing CHIP houses have compiled an excellent performance record as homeowners in terms of their housing upkeep, property improvements, and their low rate of foreclosure.

Owner Upkeep

In 1970, CHIP conducted a survey of the houses it had sold to determine the level of owner maintenance. The survey indicated that both housekeeping and the condition of the furniture and furnishings were excellent in over 90 percent of the CHIP houses that were visited. (Twenty-three houses were randomly selected and visited, representing approximately one-seventh of the properties that had been sold.)

A 1972 survey also indicated that most of the CHIP homeowners had taken very good care of their properties. In the opinion of the interviewers of 256 CHIP homeowners, approximately one-third of the CHIP houses were in excellent condition, one-third were in good condition, 18 percent were in fair condition and only 4 percent were in poor condition. (See Exhibit 10-15)

In the opinion of the interviewers, there was practically no difference between the condition of the older CHIP houses (occupied two years or more since they were rehabilitated) as compared to the newer CHIP houses (occupied less than two years since rehabilitation).

CHIP's homeowner performance record parallels that of a number of other low income homeownership programs--the Bicentennial Civic Improvement Corporation (BCIC) in St. Louis,; Better Rochester Living (BRL) in Rochester, New York; the Interfaith Interracial Council of the Clergy in Philadelphia (IICC); and Flanner House Homes in Indianapolis. Like CHIP, these programs rehabilitated houses and sold them to low and moderate income families. A study of these four projects concluded that

> even families who lived in squalid apartments which they not only failed to maintain, but often damaged further, take excellent care of the home they own. Apparently a combination

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[1] See Charles Abrams, Home Ownership for the Poor (New York: 1970), Chapter 7, for a discussion of the myths and realities of low income home ownership.

Exhibit 10-15

CONDITION OF THE CHIP HOUSES

Interviewer's opinion of the condition of the CHIP house	Older CHIP Houses (occupied 2 or more yrs.) No.	Percent	Newer CHIP Houses (occupied less than 2 yrs) No.	Percent	Total No.	Percent
Excellent	32	33.3	47	29.4	79	30.9
Good	32	33.3	54	33.7	86	33.6
Fair	15	15.6	30	18.8	45	17.6
Poor	4	4.2	7	4.4	11	4.3
No response/Don't know	13	13.7	22	13.7	35	13.7
Total	96	100.1	160	100.0	256	100.1

Source: CUPR Interview

of pride of ownership, realization that the house is an investment and freedom from dependence on a landlord for repairs prompts them to maintain and improve their homes.[2]

In contrast to these homeownership programs, many rental rehabilitation efforts have been characterized by poor maintenance. In BURP, for example, the FHA admitted that frequently the rehabilitation sponsors were not adequately maintaining the rehabilitated properties.[3]

Improvements Made by CHIP Homeowners

Many CHIP homeowners have made improvements in their houses--of the 256 interviewed, 48 percent said that they had made improvements, almost twice as many long term CHIP homeowners had made improvements as had short term owners. (See Exhibit 10-16)

The wide variety of improvements made by CHIP homeowners have included the addition of storm doors and the installation of wood paneling in basements. Long term and short term owners have made comparable improvements. (See Exhibit 10-17)

Foreclosure Rate

The CHIP program has had a low foreclosure rate--about three percent of the rehabilitated properties have been foreclosed. An attorney in the Camden FHA office has informed the writer that the percentage of foreclosures in the CHIP program is about equal to the low foreclosure rate on local FHA, 203 mortgages[4] which have been predominantly granted for houses in Camden's suburbs.

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[2]Bernard Frieden and JoAnn Newman, "Homeownership for the Poor," Transaction Vol. 7, No. 12, p. 50. See also JoAnn Newman Homeownership for Low Income People (unpublished M.I.T. Masters thesis).

[3]FHA internal memorandum from John Makinen to James Feeley, "Evaluation of the Boston Rehabilitation Program," September 29, 1969, p. 2., Cited in Keyes, Boston Rehabilitation Program, p. 148.

[4]Under the 203 program (Section 203, National Housing Act [Public Law 73-479] as amended) the FHA insures mortgages to finance the construction, purchase or improvement of one to four-family homes. The 203 program has been instrumental in the growth of suburbs in the post-World War II period.

Exhibit 10-16

HAVE YOU MADE ANY IMPROVEMENTS IN YOUR CHIP HOUSE?

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Yes	58	36.2	64	66.7	122	47.7
No	102	63.8	32	33.3	134	52.3
Total	160	100.0	96	100.0	256	100.0

Source: CUPR Interview

Exhibit 10-17

HOME IMPROVEMENTS MADE BY CHIP HOMEOWNERS

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Painted or wall-papered	25	43.1	29	45.3	54	44.3
Installed wood panelling	10	17.2	19	29.7	29	23.8
Carpeted floor	1	1.7	0	0	1	0.8
Bought storm door	5	8.6	1	1.6	6	4.9
Cemented back yard	0	0	0	0	0	0
Other	17	29.3	15	23.4	32	26.2
Total	58	99.9	64	100.0	122	100.0

Source: CUPR Interview

HOMEOWNER SATISFACTION

When asked, "How can CHIP make a better house?," CHIP homeowners responded with suggestions for improved workmanship and better materials. Long term CHIP owners especially, responded that CHIP should improve its workmanship. (See Exhibit 10-18)

Only one percent of all CHIP owners indicated that there should be no changes in the CHIP program. More than one-third stated that CHIP should provide better repair and maintenance services; many said that they would like CHIP to improve the quality of the rehabilitation, to use better materials and to rehabilitate in different neighborhoods. (See Exhibit 10-19)

The fact that CHIP homeowners would like CHIP to make changes in its program and to make a better house does not mean, however, that they are not satisfied with their CHIP houses. Of the owners interviewed, over 90 percent of the short term owners stated that they and their families liked living in a CHIP house, and over 80 percent of the long term owners voiced satisfaction with their CHIP property. (See Exhibit 10-20)

Less than ten percent of the CHIP homeowners interviewed said that they did not like living in a CHIP house. Negative responses were based on varying reasons, including expense of ownership and poor quality of rehabilitation.

Among the various reasons cited by the overwhelming majority of CHIP homeowners who said they liked their CHIP house were: the CHIP house was larger than their previous residence, new appliances and new wooden kitchen cabinets were included and that "children could play in the CHIP basement and not on the street." Many said that they enjoyed being able to own their own house at a monthly carrying cost only slightly higher than their previous rental payments.

REHABILITATION IMPACT

Providing Housing

In its five-year history CHIP has become an important source of housing in Camden. As of May 1972 it has rehabilitated 403 units (26 percent) of the total 1,569 new housing units built in Camden since 1967. Whereas almost all of the housing constructed in Camden, (e.g. the Northgate I urban renewal development) can be afforded only by middle income families, the CHIP houses are open to moderate income families.

Given its current rate of housing production, CHIP will continue to be an important source of housing in Camden. The Camden Department of Planning and Renewal has projected that from January 1972 to December 1973, 1,908 housing units will be constructed in Camden. In this

Exhibit 10-18

HOW CAN CHIP MAKE A BETTER HOUSE?

Response	Short Term CHIP Homeowner No.	Percent	Long Term CHIP Homeowner No.	Percent	Total No.	Percent
Better workmanship	48	30.0	44	45.8	92	35.9
Better materials	36	22.5	17	17.7	53	20.7
Can't make it better	41	25.6	14	14.6	55	21.5
Other	17	10.6	13	13.5	30	11.7
No response/Don't know	18	11.2	8	8.3	26	10.2
Total	160	99.9	96	99.9	256	100.0

Source: CUPR Interview

Exhibit 10-19

WHAT CHANGES IF ANY WOULD YOU LIKE TO SEE IN THE CHIP PROGRAM?

Response	Short Term CHIP Homeowner No.	Percent	Long Term CHIP Homeowner No.	Percent	Total No.	Percent
Improve quality of work	25	15.6	22	22.9	47	18.4
Use better building materials	14	8.7	7	7.3	21	8.2
Add amenities in house (e.g., air conditioner, dishwasher)	3	1.9	2	2.1	5	2.0
Rehabilitate houses in different neighborhood	17	10.6	11	11.5	28	10.9
Better repair and maintenance service	63	39.4	29	30.2	92	35.9
Other changes	18	11.2	16	16.7	34	13.3
No changes	3	1.9	-	-	3	1.2
No response/Don't know	17	10.6	9	9.4	26	10.2
Total	160	99.9	96	100.1	256	100.1

Source: CUPR Interview

Exhibit 10-20

HOW DO YOU AND YOUR FAMILY FEEL ABOUT LIVING IN A CHIP HOUSE

Response	Short Term CHIP Homeowners No.	Percent	Long Term CHIP Homeowners No.	Percent	Total No.	Percent
Like	147	91.9	77	80.2	224	87.5
Dislike	7	4.4	14	14.6	21	8.2
No response/Don't know	6	3.7	5	5.2	11	4.3
Total	160	100.0	96	100.0	256	100.0

Source: CUPR Interview

two-year period, CHIP is expected to provide 206 units--slightly more than ten percent[5] of the total. (See Exhibit 10-21)

Furthermore, CHIP will be providing some of Camden's lowest cost housing (outside of public housing). The monthly carrying cost of a three-bedroom CHIP home is $126; in contrast, most of the monthly rentals of the three-bedroom units that will be built in Camden in the next two years are considerably higher. (See Exhibit 10-21)

From January 1972 to December 1973, CHIP will be practically the only housing sponsor providing large housing units. In this two-year period, the Camden Planning Department projects that 413 three-bedroom units, 38 four-bedroom units, 41 five-bedroom units and 15 six-or-more-bedroom units will be built. Of these totals it projects that CHIP will build approximately one-quarter of all three-bedroom units, one-half of the total four-bedroom units and all of the five-and six-bedroom units. Thus, if CHIP maintains its current rate of production, it will continue to be one of Camden's important sources of large low cost housing.

Impact of Structural Rehab on Housing Maintenance in the Immediate Area

A frequent objective of housing rehabilitation sponsors is for their efforts to serve as a catalyst to stimulate other homeowners in the neighborhood to improve their level of maintenance. In many instances, this objective has not been achieved[6], but in CHIP's case--at least in the opinion of many CHIP homeowners--there has been a positive effect on property maintenance by non-CHIP homeowners.

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[5]In all likelihood in the next two years CHIP will be providing more than ten percent of Camden's housing because a suit brought by the Camden Legal Services Office against Camden and HUD has halted construction on the Northgate II and Centre City housing developments. The Legal Services suit was brought on behalf of the Camden Coalition, a group composed of Camden civil rights and poverty organizations. The suit has charged that Camden has not provided adequate relocation services for the families displaced by Centre City and Northgate II and that the city has not, as required by law, involved neighborhood organizations in the planning of these two housing developments. See The Courier Post September 18, 1970.

[6]See Kristof, A Large-Scale Residential Rehabilitation Program for New York City, pp. 28-29.

Exhibit 10-21

PROJECTED HOUSING RESOURCES, JANUARY 1, 1972 - DECEMBER 31, 1972

CAMDEN, NEW JERSEY

	PROJECT OR SPONSORSHIP	PROGRAM OR SUBSIDY	TOTAL NO. OF UNITS	Eff.	1	2	3	4	5	6+	Type of Occupancy
1.	Ivy Hill Apts.	FHA-236	123	0	30	56	37	0	0	0	Rental
2.	East State St. Apts.	FHA-236	200	0	28	92	80	0	0	0	Rental
3.	Northgate No. 2	HFA and FHA-236	365	28	196	85	56	0	0	0	Rental
4.	Harmony House	FHA-236	72	0	5	52	15	0	0	0	Rental
5.	Diocese of Camden	FHA-236	321	0	90	196	35	0	0	0	Rental
6.	City Centre Corp.	HFA	224	70	154	0	0	0	0	0	Rental (Elderly)
		Turnkey PH	104	64	40	0	0	0	0	0	Rental (Elderly)
		Turnkey 3 PH	93	0	0	0	75	18	0	0	Rental (Edlerly)
7.	CHIP and MIRA Rehab.[9]	FHA-235-J	206	0	0	15	115	20	41	15	Sales
8.	Cramer Hill	Private	200	0	60	140	0	0	0	0	Rental
		TOTALS	1908	162	603	636	413	38	41	15	

1. The rentals are as follows: 1 bedroom - $113.; 2 bedrooms - $129.; 3 bedrooms - $145. Construction completed September 30th, 1972. With no rent supplement.

2. The rentals are as follows: 1 bedroom - $114.; 2 bedrooms - $130.; 3 bedrooms - $147. With no rent supplement. Construction to be completed by early, 1972.

3. The rentals are as follows: Efficiency - $110.; 1 bedroom - $125.; 2 bedrooms - $151.; 3 bedrooms - $170., with a 20% rent supplement on each bedroom size. Construction scheduled to begin October 1, 1971, subject to present law suit being adjudicated. Completion date June, 1973.

4. The proposed rentals are as follows: 1 bedroom - $113.; 2 bedrooms - $129.; 3 bedrooms - $145. with a 20% rent supplement. Construction to start by October 1st, 1971. Completion date November, 1972.

Exhibit 10-21 (continued)

5. The proposed rentals are as follows: 1 bedroom - $120.; 2 bedroom - $140.; 3 bedroom - $165. and the amount of the rent supplement is unknown at this time. Construction to start within 60 days. Completion date June, 1973.

6. The proposed rentals are as follows: Efficiency - $99.; 1 bedroom - $120. with no rent supplement. Construction to start by October 15th, 1971. Completion date June, 1972.

7. These are existing structures which will be rehabilitated for sale to low-income families. The sale price range is $11,000 to $17,000.

[9]Includes also rehabilitation by the Movement to Improve and Rehabilitate Areas (MIRA). The pace of MIRA rehabilitation, however, has been negligible.

Source: Camden Department of Planning and Renewal

Two hundred and fifty-six CHIP owners were asked, "Since you bought your CHIP house, has the level of maintenance by other non-CHIP homeowners on the block improved?" Almost half responded that the level of maintenance by non-CHIP homeowners had improved; 38 percent said that it had remained the same and only 9 percent replied that it had declined. (See Exhibits 10-22 and 10-23) There was a very close similarity between the replies given by short and long term CHIP homeowners. (See Exhibit 10-23) In terms of the responses by North and South Camden CHIP homeowners, a higher percentage of the former felt that CHIP had a positive impact on non-CHIP homeowner maintenance. (See Exhibit 10-22) This may have been due to the fact that most of the CHIP houses were rehabilitated in North Camden and, consequently, the greater concentration of CHIP houses in North as opposed to South Camden may have achieved a critical mass for influencing non-CHIP homeowners to improve their level of maintenance.

Impact of Rehabilitation on the Quality of Neighborhoods

In the opinion of many of the staff members of the North Camden Day Care Center, and even of CHIP itself, the CHIP program has had an ancillary effect on improving the quality of life in North and South Camden. In fact, many of them believe that in terms of drug and crime problems, these areas are less desirable places to reside in today than five and one-half years ago when the CHIP program was established. They believe this to be especially true of North Camden.

Interestingly, CHIP homeowners feel just the opposite. Of the owners interviewed, almost three-quarters responded that the CHIP program has had a positive effect on improving their neighborhood, and only 15 percent replied that CHIP has had no effect on improving the neighborhood. (See Exhibits 10-24 and 10-25)

Evaluations of North and South Camden CHIP homeowners, are almost identical. Almost three-quarters of both the North and South Camden CHIP homeowners believe that CHIP has had a positive effect on improving the immediate neighborhood, while only 15 percent of the North Camden CHIP homeowners and 14 percent of the South Camden CHIP homeowners feel that CHIP has had no impact on improving the immediate neighborhood. (See Exhibit 10-24)

In terms of short and long term CHIP homeowners, a slightly higher percentage of the former feel that CHIP has had a positive impact on the immediate neighborhood. (See Exhibit 10-25) Despite the fact that these long term CHIP homeowners tend to have a less positive overall evaluation of the CHIP program, more than 60 percent of the long term owners interviewed felt that CHIP had improved their neighborhood. In summary then a general picture emerges of homeowner satisfaction with both the CHIP houses and the CHIP program.

Exhibit 10-22

SINCE YOU BOUGHT YOUR CHIP HOUSE HAS THE LEVEL OF MAINTENANCE BY OTHER HOMEOWNERS ON THE BLOCK IMPROVED?

North and South Camden CHIP Homeowners

Response	North Camden CHIP Homeowners		South Camden CHIP Homeowners		Total	
	No.	Percent	No.	Percent	No.	Percent
Improved	97	51.1	24	36.4	121	47.3
Remained the same	65	34.2	31	47.0	96	37.5
Declined	16	8.4	6	9.1	22	8.6
No response/Don't know	12	6.3	5	7.6	17	6.6
Total	190	100.0	66	100.0	256	100.0

Source: CUPR Interview

Exhibit 10-23

Short and Long Term CHIP Homeowners

Response	Short Term Chip Homeowners		Long Term Chip Homeowners		Total	
	No.	Percent	No.	Percent	No.	Percent
Improved	71	44.4	50	52.1	121	47.3
Remained the same	63	39.4	33	34.4	96	37.5
Declined	14	8.7	8	8.3	22	8.6
No response/Don't know	12	7.5	5	5.2	17	6.6
Total	160	100.0	96	100.0	256	100.0

Source: CUPR Interview

Exhibit 10-24

DO YOU THINK THE CHIP PROGRAM HAS HAD ANY EFFECT ON MAKING YOUR IMMEDIATE NEIGHBORHOOD A BETTER PLACE TO LIVE?

North and South Camden CHIP Homeowners

Response	North Camden CHIP Homeowners		South Camden CHIP Homeowners		Total	
	No.	Percent	No.	Percent	No.	Percent
Yes, has had a positive effect	138	72.6	49	74.2	187	73.0
No, has had no effect	28	14.7	9	13.6	37	14.5
No response/Don't know	24	12.6	8	12.1	32	12.5
Total	190	99.9	66	99.9	256	100.0

Source: CUPR Interview

Exhibit 10-25

Short and Long Term CHIP Homeowners

Response	Short Term CHIP Homeowners		Long Term Chip Homeowners		Total	
	No.	Percent	No.	Percent	No.	Percent
Yes, had had a positive effect	127	79.4	60	62.5	187	73.0
No, has had no effect	12	7.5	25	26.0	37	14.5
No response/Don't know	21	13.1	11	11.5	32	12.5
Total	160	100.0	96	100.0	256	100.0

Source: CUPR Interview

Chapter XI

REHABILITATION: A SPECIFIC SUCCESS AND POTENTIAL FOR REPLICATION

This chapter explores the reasons why CHIP has been more successful than other rehabilitation efforts and examines whether CHIP's success could be duplicated by other sponsors in other cities besides Camden.

KEYS TO SPECIFIC SUCCESS

Support of Influential Local Corporation

CHIP's sponsors--Campbell Soup Company, RCA, the Dorrance Foundation, the Bank of New Jersey and the South Jersey National Bank--were the corporate and financial "who's who" in Camden; their local influence undoubtedly helped smooth CHIP's negotiations with the local FHA office and the municipal government. The executives of these corporations and financial institutions also served as officers of CHIP and were directly involved in and continously gave of their time and energy to insure that CHIP would succeed. Jerry Weinstein has repeatedly mentioned that the strong interest and participation of CHIP's board was an essential element in CHIP's success.

But, the participation and support of CHIP's sponsors only partially explains CHIP's unique success; other rehabilitation efforts which have been aided and even implemented by corporate giants have been far less successful than CHIP. Armstrong Cork, for example, rehabilitated properties in Lancaster, Pennsylvania, and it invested $5,000 more per house than it could recover from the sale of these properties.[1] In Cleveland's Hough neighborhood, the American Plywood, National Forest, and Southern Pine Associations dropped their rehabilitation effort plans after an investment of $60,000 because the associations felt that their rehabilitation effort would accomplish nothing more than an isolated construction exercise at prohibitive cost. Boise Cascade lost millions of dollars when it ventured into urban rehabilitation.[2] Clearly, then, corporate sponsorship of rehabilitation by no means insures its success.

Experience and Expertise of CHIP's Staff

CHIP's staff has both experience and skill in real estate, finance and related areas. Its executive director, Jerome Weinstein, had been a licensed real estate broker, and he had gained invaluable experience in dealing with federal programs from his work in Camden's OEO-funded antipoverty program. Some of CHIP's employees have also had experience in housing construction, real estate, insurance and in the processing of federal mortgage application forms, which to the untutored can often be a harrowing and time-consuming process.

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[1]Jack Bryan, "The Rocky Road to Low Income Rehabilitation for the Private Investor," Journal of Housing, No. 2, February 1970, pp. 76-82.

[2]The New York Times July 30, 1972

Bob Nyce's construction expertise was of invaluable help to CHIP both in terms of reducing construction costs and of producing uniformly accurate construction estimates.

Relationship with Neighborhood Residents

Another reason for CHIP's success is that it has been supported by residents in North and South Camden. Neighborhood support has manifested itself in numerous ways. Local residents, for example, have often called the Camden police if they suspect that a CHIP house is being vandalized. In contrast, as the macro analysis of this study noted, other rehabilitation efforts have been impeded by sponsor-community antagonism.

It is difficult to pinpoint how CHIP has avoided the community relations problems that have plagued other rehabilitation efforts. One possible explanation is that since CHIP rehabilitated only vacant properties, it caused no local relocation problems. Furthermore, CHIP has maintained a comparatively low neighborhood profile and has avoided becoming embroiled in local disputes.

Specific Focus on Housing

Part of CHIP's success can be attributed to its exclusive focus on rehabilitating properties. Unlike other efforts, it does not concern itself with providing jobs for local residents or training them in construction skills. CHIP's hiring of minority contractors was done on the basis of their qualifications rather than on their color.

Based on his experiences as the executive director of Micah, John Kenowe concluded that nonprofit groups that combine eleemosynary activities, such as job training, with providing housing "are particularly prone to bite off more than they can chew."[3] CHIP felt that it could successfully rehabilitate properties only if it focused solely on a goal of providing housing, and this may be one reason why it was successful.

Screening of Rehabilitation Homeowners

CHIP has a full-time staff member who carefully screens potential homeowners. Every applicant is visited at his residence by a CHIP staff member to determine whether he is currently maintaining his apartment. During this home visit, the CHIP staff member also attempts to evaluate the applicant's home life and considers such factors as the presence of a person who can discipline the children.

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[3]Kenower, Micah, A Case Study in Housing Rehabilitation Through Non-Profit Sponsorship, p. 9.

If the applicant is adjudged acceptable after this home visit, CHIP then checks with either his employer or his welfare case worker to determine whether his annual income meets the minimum requirements established by the FHA for the 235J program. If the applicant is a welfare recipient, CHIP asks his case worker for an evaluation of his housekeeping standards and his potential as a homeowner.

As a final screening step, CHIP pays for a professional credit check of the applicant, which provides information about his outstanding debts, his record of employment and his previous rent or mortgage payment record. Only approximately one-fourth of the families applying to purchase CHIP houses were approved. The costs of this extensive screening process are high, for it occupies the entire time of a full-time CHIP staff member. CHIP considers stringent screening to be crucial, however, because it believes that it contributes to the program's low foreclosure rate and to the excellent maintenance record of most CHIP homeowners. On several occasions at the request of the Camden Welfare Department and the OEO office, CHIP relaxed its screening procedure. It found that those homeowners who were not rigorously screened caused more maintenance problems than those that were approved after the regular CHIP screening procedure.

CHIP's screening process resembles the procedures successfully used by the BRL, BCIC, IICC and Flanner House Homes. A study of these four programs demonstrated that one reason for their low foreclosure rates was that they were "skimming the cream" and accepting only the handful of low income families who could deal with the commitments of home-ownership.[4]

Corroborating the importance of meticulous applicant screening is a study conducted by the San Francisco Development Fund.[5] The Development Fund established two groups of low income families who desired to own their own houses--an experimental group that was rigorously screened and counseled, and a control group that was not screened or counseled. The former were evaluated according to six factors: desire for homeownership, family potential, acceptable credit practices, family stability, ability to respond to counseling and reasonable physical and mental health. The results of this study showed that a far higher percentage of the screened and counseled applicants eventually owned or were considered able to own their own homes as compared to the unscreened control group.

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[4]Frieden and Newman, "Home Ownership for the Poor."

[5]Elizabeth Eudey, A Move to Home Ownership, (San Francisco, San Francisco Development Fund, 1970).

THE POSSIBILITY OF OTHER SUCCESSES

A rehabilitation sponsor with experience in construction and maintenance, who carefully screened potential tenants or homeowners, who focused on a single goal of providing housing, and who operated without antagonizing local residents or becoming embroiled in local disputes could most probably rehabilitate properties as successfully as CHIP. If such a sponsor were able to gain the financial support of local businesses and financial institutions, his chances for success would be enhanced. In all probability, however, many rehabilitation sponsors will be unable or unwilling to adopt CHIP's rehabilitation strategies.

Corporate support for rehabilitation has diminished markedly since the mid 1960's when many corporations such as Armstrong Cork not only were unable to recoup their investment, but encountered neighborhood opposition and hostility as well. The attitude of many corporations has understandably soured toward urban rehabilitation.

The very groups that have been attracted to sponsor urban rehabilitation efforts--churches and similar non profit organizations--often have had little or no experience in construction or housing maintenance. For example, an attorney at the Camden FHA office has informed the writer that many of the non profit groups that apply to rehabilitate low income housing in Camden, (as well as other urban areas) have a great deal of enthusiasm, but generally know very little about constructing and maintaining properties. Despite their use of a stringent screening process for prospective tenants, such sponsors may be overwhelmed by maintenance problems.

Finally, the efforts of rehabilitation sponsors have been impeded by their attempts to accomplish ancillary goals such as job training. A common sentiment, expressed by the executive director of Action for Boston Community Incorporated, Robert Coard, has been that rehabilitation should not provide only housing in inner city areas but should be used to create new jobs for people who need a job. [6] As the macro analysis of this study has indicated, however, most rehabilitation efforts engaging in job training have often encountered severe problems.

FUTURE OF CHIP

CHIP is currently confronted by a number of problems that may impede its future rehabilitation efforts. Despite the fact that the state of New Jersey has agreed to condemn properties for CHIP, property acquisition remains a persistent problem--CHIP's need for vacant houses to be rehabilitated often outstrips the available supply in Camden.

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[6] Robert Coard, "BRP As An Opportunity for Training and New Careers" in Levin's Innovations in Housing Rehabilitation. p. 34.

The greatest single threat facing the CHIP program is that HUD may curtail its low income homeownership programs because of their incidence of widespread fraud and their high foreclosure rate.[7] In January 1972, HUD issued new 235J mortgage eligibility regulations concerning an applicant's minimum income and financial stability.[8] These new HUD regulations seriously curtailed CHIP's efforts from January to June 1972 because many of the applicant families who would have been accepted previously were deemed ineligible by the new regulations. CHIP has recently obtained a variance to the new HUD income guidelines, but possible future Congressional efforts to cut back the FHA low income homeownership programs seriously threaten CHIP's continued success.

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[7] The New York Times, April 24, 1972.

[8] U.S. Department of Housing and Urban Development, Circular HPMC-FHA 4040.2, January 26, 1972.

Chapter XII

POLICY IMPLICATIONS

This study has shown that rehabilitation has often failed because of a host of restraints. It has further demonstrated that there are no quick, cheap or easy strategies that will force, encourage or facilitate rehabilitation. And it has concluded that CHIP's success is not likely to be duplicated. This chapter evaluates broad policy alternatives given the restraints to effecting rehabilitation. The three policies that will be considered are: (1) reduced emphasis on rehabilitation (2) continued emphasis on rehabilitation and retention of existing programs and policies (3) continued rehabilitation but revaluating and changing its goals and operations, e.g., when and where it should be effected and by whom.

REDUCED EMPHASIS ON REHABILITATION

Rehabilitation could be phased out by discontinuing or reducing the funding for the existing federal, state and local rehabilitation programs. Proponents of such a policy maintain that since existing government-subsidized rehabilitation programs have often proved expensive and ineffectual, further investment in rehabilitation is a waste of scarce public resources; they would substitute a program of new housing construction.

The above criticism overlooks the advantages and occasional successes of rehabilitation efforts - for example, producing housing at a lower cost and in less time than new construction. Furthermore, new construction is not a panacea - it is often not the optimal strategy in "gray areas", which require the quick reversal of further neighborhood decay. Furthermore, new construction is also characterized by many of the same problems that plaque rehabilitation, such as the problems of managing and maintaining housing.

RETENTION OF EXISTING REHABILITATION PROGRAMS AND POLICIES

The rationale for such preservation of the status quo is that the failure of many existing rehabilitation programs is due not to inherent program deficiencies but to inadequate or ineffective implementation. Supporters of this strategy believe that better management and supervision would transform failure into success.

But this belief is myopic. Despite the truth of the fact that some rehabilitation efforts, such as the Philadelphia "used house" program, have fallen short because of poor governmental supervision, most of the failures of rehabilitation programs cannot be blamed solely on mismanagement. As Chapters Two and Three have shown, there are

scores of restraints to rehabilitation that are not directly attacked or reduced by existing programs.

REAPPRAISAL AND REORGANIZATION OF REHABILITATION'S OPERATIONS AND PRIORITIES

A third strategy would be the continuance of rehabilitation after a thorough reexamination of its goals and operations.

When Should Rehabilitation Be Effected?

Because of the many problems attendant upon rehabilitation, it should be undertaken only when its advantages are clearly greater than those of new construction. A.H. Schaaf has suggested that it would be the preferred housing strategy when redevelopment costs exceed the sum of rehabilitation costs plus the present value of the next renewal cost outlay plus the present value of the annual difference between maintenance costs for a rehabilitated structure as compared with those for a new property.[1] This could be expressed in a formula as:

Rehabilitation would be preferred if $C > \left[R + M\frac{1-(1+i)^{-n}}{i} + \frac{C}{(1+i)^n} \right]$

where C = new construction cost

R = rehabilitation cost

M = annual savings in maintenance costs with a new structure rather than a rehabilitated one

n = life of present structure following rehabilitation

i = discount rate

Schaaf also considers two other formulas:

Formula 2. Rehabilitation would be preferred if

$$C > \left[R + M\frac{1-(1+i)^{-n}}{i} + \frac{C(1-nr)}{(1+i)^n} + D\frac{1-(1+i)^{-n}}{i} \right]$$

Where D = differences between the annual rental income of a new structure and a rehabilitated structure

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[1] A.H. Schaaf, "Economic Feasibility Analysis for Urban Renewal Housing Rehabilitation," Journal of the American Institute of Planners No. 6, Vol. 35, November 1969, pp. 399-404.

Formula 3. Rehabilitation would be preferred if

$$C-\left[R_1+\frac{R_1}{(1+i)^{n_1}}+\frac{R_1}{(1+i)^{2n_1}}+\frac{R_3(r_3(n_c-3n_1))}{(1+i)^{3n_1}}+M_1\frac{1-(1+i)^{-3n_1}}{i}+D_1\frac{1-(1+i)^{-3n_1}}{i}+\frac{M_3\frac{1-(1+i)^{-(n_c-3n_1)}}{i}}{(1+i)^{3n_1}}+\frac{D_3\frac{1-(1+i)^{-(n_c-3n_1)}}{i}}{(1+i)^{3n_1}}\right]$$

yields a plus number
where

R_1 = cost of code compliance,

R_3 = cost of modernization,

C = cost of new construction,

n_1 = life of structure rehabilitated to the code compliance standard,

n_3 = life of structure rehabilitated to the modernization standard,

$r_3 = \frac{100}{n_3}$ percent,

n_c = life of new structure,

M_1 = difference in maintenance costs between a new structure and one rehabilitated to the code compliance standard,

D_1 = difference in rent levels between a new structure and one rehabilitated to the code compliance standard,

M_3 = difference in maintenance costs between a new structure and one rehabilitated to the modernization standard, and

D_3 = difference in rent levels between a new structure and one rehabilitated to the modernization standard.

W. Lean, a planning-economist in England, suggests other methods[2] for determining when to effect rehabilitation - among them, a rate of return and a capital values method. The former method compares the percent return of investments in rehabilitation and redevelopment using the following formula:

$$r = \frac{nr - sf}{C} \times 100$$

where

r = rate of return,

C = Cost of rehabilitation or redevelopment (including cost of improvement to the environment),

nr = increase in net rent (rent minus outgoings), and

sf = amount annually that will accumulate to C at a stated compound interest for the term of years.

Lean concludes that public or private housing sponsors should rehabilitate housing whenever the rate of return of the housing strategy will be greater than for redevelopment.[3]

The capital values method compares the costs of rehabilitation and the difference in capital values before and after rehabilitation with the costs of redevelopment and the differences in capital values before and after redevelopment. For example, if a $1,000 rehabilitation cost increased a property's capital value by $1,500 while a $3,000 redevelopment produced a $3,300 increase, then from a purely economic standpoint, rehabilitation would be the better policy.

Public policy makers can be aided in their decisions about rehabilitation by using the economic feasibility formulas suggested by Schaaf, Lean and other economists.[4]

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[2]W. Lean, "Housing Rehabilitation or Redevelopment: The Economic Assessment." Journal of the Town Planning Institute, Vol. 57, No. 5, May 1971, pp. 226-228.

[3]Lean assumes that the economics of rehabilitation vs. redevelopment will be the major determining factor for both private and public housing bodies.

[4]See Rothenberg, Economic Evaluation of Urban Renewal pp. 243-245.

Where Should Rehabilitation Be Effected?

Before deciding where rehabilitation should be effected,[5] public policy makers must differentiate among existing urban neighborhood conditions. HUD secretary, George Romney, has delineated five types of central city neighborhoods: (1) Thriving neighborhoods in good condition with no apparent characteristics of decline; (2) neighborhoods in early stages of instability; (3) neighborhoods in which decline is clearly underway; (4) neighborhoods in accelerating or late stages of decline; (5) neighborhoods which are largely abandoned.

In neighborhoods four and five, property costs will usually be lower than in the other neighborhoods, but rehabilitation efforts in neighborhoods four and five will often be futile because the rehabilitated property may succumb to those same forces that caused neighborhood decline. In contrast, rehabilitation would be crucial to halting advancing deterioration in neighborhoods two and three, because it can be effected much more rapidly than new construction. Obviously, rehabilitation could be effected in neighborhood one, but its use would be more effectively concentrated in "gray areas", such as neighborhoods two and three, especially if there are limitations on the volume of publicly-subsidized rehabilitation.

Who Should Effect Rehabilitation?

Many governmental rehabilitation programs are available only to nonprofit sponsors. Occasionally, limited-profit sponsorship is allowed but often few profit-oriented organizations are interested because of the risks involved and the restricted profit margins. If the scope and performance of rehabilitation are to improve, public policy makers must reconsider the profit restrictions they have established. An increase in allowable profits may not result in an influx of limited-profit sponsors, but it will possibly generate greater participation in rehabilitation sponsorship on their part.

Furthermore, since rehabilitation is a complicated endeavor fraught with uncertainty, policy makers should consider restricting sponsorship to experienced sponsors only. Although such a limitation would lessen volume and might anger certain community groups (who often have little experience in rehabilitation), it would reduce rehabilitation failures caused by sponsor incompetence.

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[5]HUD has recently established its own restrictive guidelines governing the location of federally-aided housing. See Byron Fielding, "HUD New Project Selection System," Journal of Housing No. 10, November 1971, pp. 537-540.

Another area that public policy makers should reconsider is their past encouragement of job training programs by rehabilitation sponsors. As noted, one of the reasons for CHIP's success was its avoidance of all such activities not directly concerned with providing housing. A national policy encouraging an exclusive focus such as CHIP's would increase the chances for rehabilitation success.

Conclusion

In 1962 former HUD secretary, Robert C. Weaver, contended that rehabilitation is crucial for the revitalization of our urban areas and that "rehabilitation will work because it has to work."[6] His conviction was shared by other public officials.

To date, however, the record of rehabilitation has often been disappointing. The successes scored by CHIP and a handful of other rehabilitation programs have been the exceptions rather than the rule.

To paraphrase Secretary Weaver, rehabilitation will work only if we learn from the past mistakes of existing programs. The optimal policy, then, would be that of reevaluating the objectives and methods of rehabilitation and instituting those changes that would enhance its future success. This study has attempted to facilitate this reevaluation of rehabilitation by public policy makers.

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[6]"The Urban Frontier," Address by Robert C. Weaver, Administrator Housing and Home Finance Agency, before the Worcester Economic Club, Sheraton-Bancroft Hotel, Worcester, Massachusetts, March 8, 1962.

Appendix I

FEDERAL TAX POLICIES AND REHABILITATION

This appendix examines the mechanics of the federal tax depreciation provisions and then evaluates the charge that these provisions have discouraged rehabilitation.

Depreciation: Mechanics

A real estate owner is allowed to deduct varying amounts of depreciation from the taxable income accruing from his property. Three frequently used depreciation schedules are straight-line, sum of the years digits, and declining balance methods (See Exhibit A-1-1). The latter two are accelerated schedules, for they allow the purchaser of a property to calculate depreciation in excess of the actual property value decline. (See Exhibit A-1-1)

In some instances, an owner may have a positive cash flow from his property but because he was allowed to deduct depreciation, he may realize little or no taxable income or even a tax loss from his parcel.[1] Since a tax loss on a property is not restricted to the income of the parcel in question, "spillover" is allowed, and the tax loss can shield non-real estate income from being taxed at income tax rates. If the property is sold, the depreciation writeoff will be taxed but only at capital gains rates, which are considerably lower than income tax rates.

Effect of Depreciation Policies on Rehabilitation: Overview

Under either the declining-balance or sum of the years digits methods of depreciation, the greatest amount of depreciation is in the early years of ownership. (See Exhibit A-1-1) Theoretically, then, a high-income property owner would benefit by retaining a parcel for only a few years so that he could be protected by the greatest tax shelter. As the depreciation writeoff and consequently the tax shelter are reduced, he would sell his parcel and acquire another building to begin the cycle anew.

Many writers contend that federal taxation policies discourage rehabilitation by encouraging this kind of short-term ownership. In

[1] See Alan Cerf, Real Estate and the Federal Income Tax (Englewood Cliffs: 1965) and Paul Wendt and Alan Cerf. Real Estate Investment Analysis and Taxation. (New York: 1969)

Exhibit A-1-1

FIRST 10 YEAR'S DEPRECIATION UNDER STRAIGHT LINE, SUM OF THE YEARS DIGITS AND DECLINING BALANCE DEPRECIATION SCHEDULES

Cost of Property: $120,000 ($20,000 land and $100,000 depreciable building)
Useful Life: 25 years, no salvage value

Year	Depreciation Schedules			
	Straight line	150% declining balance	200% declining balance	Sum of the years digits
1	$4,000	$6,000	$8,000	$7,692
2	4,000	5,640	7,360	7,385
3	4,000	5,302	6,771	7,077
4	4,000	4,983	6,330	6,769
5	4,000	4,685	5,731	6,462
6	4,000	4,403	5,273	6,154
7	4,000	4,139	4,851	5,846
8	4,000	3,891	4,463	5,538
9	4,000	3,657	4,106	5,231
10	4,000	3,434	3,777	4,923
Total 1st 10 years	$40,000	$46,144	$56,562	$63,077
Percentage of $100,000 depreciable building	40%	46.1%	56.6%	63.1%

Source: Adapted from Patricia Hodge and Philip Hauser, The Federal Income Tax in Relation to Housing (Washington, D.C.: Government Printing Office, 1968), p. 134.

1959 Arthur Sporn argued that "as applied to rental housing our present depreciation provisions offer strong financial inducements to the operation of property in a manner directly antithetical to efforts at slum abatement and prevention through conservation and rehabilitation.[2] And in a research report for the National Commission on Urban problems, Patricia Hodge and Phillip Hauser stressed that the federal taxation of real estate prompted short-term ownership that was not conducive to rehabilitation.[3]

The Hodge-Huaser conclusions were accepted almost verbatim by the National Commisssion on Urban Problems.[4]

Effect of Depreciation Policies on Rehabilitation: Specifics

The contention of Sporn, Hodge and Hauser that the federal depreciation provisions discourage rehabilitation by encouraging a rapid ownership turnover may have been true from 1954 (when the 1954 Tax Act first allowed accelerated depreciation schedules) until 1964 (when that year's tax act curtailed rapid depreciation). But today the validity of their conclusions are questionable.

With the enactment of the accelerated tax depreciation provisions in 1954, real estate investment offered a tax shelter for high income individuals. On a $120,000 parcel, for example, the aggregate 5-year depreciation--using a 150 percent double-declining balance schedule[5] with a 25-year useful life--would be over $26,000. Even after capital gains taxes were paid, individuals in the 60 and 75 percent income tax brackets would have realized a total tax saving of $9,313 and $13,305 respectively. (See Exhibit A-1-2)

The depreciation tax shelter allowed by the 1954 Tax Act was restricted by the 1964 Tax Act. Section 1250 of the 1964 Tax Act provided that if a depreciated property were sold within 10 years of its acquisition, then the excess of the accelerated depreciation over straight-line depreciation would be "recaptured" and taxed at prevailing income tax rates. The amount of recapture would vary

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[2]Sporn, "Contribution of the Income Tax Law on Growth and Prevelence of Slums, p. 1037.

[3]Hodge and Hauser, The Federal Income Tax in Relation to Housing, pp. 36-38.

[4]U.S. National Commission on Urban Problems, Building the American City, p. 403.

[5]It is assummed that the building purchased is not new. Consequently the sum of the year's digits and 200 percent declining balance schedules cannot be used.

Exhibit A-1-2

TAX BENEFIT OF RAPID DEPRECIATION WITHOUT RECAPTURE

Cost of property: $120,000 ($20,000 land and $100,000 depreciable building)
Sale of property: 5 years after acquisition, sold for $120,000
Useful life: 25 years, no salvage value

Depreciation schedule: 150% declining balance
Capital gains tax rate: 25 %

Year	Yearly Depreciation (See Exhibit A-1-1)	Yearly Tax Saving for Individual in	
		60% income tax bracket	75% income tax bracket
1	$6,000	$3,600	$4,500
2	5,640	3,384	4,230
3	5,302	3,181	3,977
4	4,983	2,990	3,737
5	4,685	2,811	3,514
Total	26,610	15,966	19,958

Cost of property	$120,000
Less depreciation	26,610
Adjusted tax basis	$ 93,390
Selling price of property	$120,000
Adjusted tax basis	93,390
Taxable gain	$ 26,610
Capital gains tax (at 25 percent rate)	$ 6,653 ($26,610 x .25)
Tax saving for individual in	
60 percent tax bracket	$9,313 ($15,966 - $6,653)
75 percent tax bracket	$13,305 ($19,958 - $6,653)

according to the length of time the property had been held. For the first 20 months, there would be total recapture and regular income taxation (at prevailing income tax rates) on the amount of the accelerated depreciation that was greater than the depreciation under the straight-line method. After 20 months, recapture would be reduced at the rate of one percent per month. If property was held 120 months, or ten years, there would not be any recapture.

The operation of the Section 1250 recapture provisions is illustrated by the following example. On a $120,000 property that is rapidly depreciated and sold after five years by its owner (who is in the 60 percent income tax bracket), the Section 1250 recapture provisions would reduce his tax savings $1,388--from $9,313 without recapture to $7,925. (See Exhibit A-1-3) The tax saving of an individual in the 75% income tax bracket would be reduced $1,983--from $13,305 without recapture to $11,322. (See Exhibit A-1-3)

The 1969 Tax Act markedly reduced tha tax advantage of rapidly de- recoated real estate. The Act curtailed the utilization of accelerated depreciation schedules and stipulated that on used residential properties only a 125 percent declining-balance depreciation schedule could be used. (See Exhibits A-1-1, and A-1-4)

The 1969 Tax Act also amended the Section 1250 recapture provisions.[6] Whereas previously there was 100 percent recapture of accelerated depreciation over straight line if the property was sold 20 months after it was acquired, under the 1969 provisions there is full recapture for the first 100 months. Afterwards the applicable recapture percentage is determined by subtracting 1 percent from 100 percent for each month the property is held. It takes 200 months or 16 years, 8 months before there would be no recapture.

Other provisions in the 1969 Act also diminish the tax advantages of accelerated writeoff and the quick turnover of real estate, which have purportedly impeded rehabilitation. For example, Section 56 of the Internal Revenue Code imposed a ten percent tax on perferred income which included the excess of accelerated depreciation over straight-line depreciation. The tax on capital gains was also increased.

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[6]For evaluations of the 1969 Tax Act see C. Willis Ritter, and Emil Sunley, Jr. "Real Estate and Tax Reform: An Analysis and Evaluation of the Real Estate Provisions of the Tax Reform Act of 1969," Maryland Law Review, Vol. 30, No. 1. 1970. Elayne Shochet Tatar, "The Investor and the Section 236 Housing Program," Houston Law Review, Vol. 8, No. 5, May 1971; Notes, "The Effect of Federal Income Taxation on Housing," Notre Dame Lawyer, Vol. 45, No. 1, 1969, p. 111; and Lewis Kaster and Stanley Berman, Subsidized Housing Tax and Profit Opportunities in Selling and Buying. (New York: Practising Law Institute, 1971)

Exhibit A-1-3

OPERATION OF THE 1964 RECAPTURE PROVISIONS

Taxable gain[1]	$26,610
Recapture Calculation	
5 year aggregate depreciation under 150 percent declining balance schedule[1]	$26,610
5 year straight-line depreciation[1]	-20,000
Excess of accelerated depreciation over straight-line depreciation	$ 6,610
Recapture percentage (60 percent)[2]	X .60[2]
Portion of accelerated depreciation taxed at ordinary income	$ 3,966
Portion of accelerated depreciation taxed as long term capital gain	$22,644[3]
Taxes Paid and Tax Savings	
Total taxes paid $2,380 ($3,966 x .60) + $5,661 ($22,644 x .25)[4]	$ 8,041
or	
$2,975 ($3,966 x .75)+ $5,661 ($22,644 x .25)[5]	$ 8,636
Aggregate tax savings for individual in 60% income tax bracket ($15,966 - $8,041)[6]	$ 7,925
75% income tax bracket ($19,958 - $8,636)[6]	$11,322

[1]See Exhibit A-1-2

[2]Under the 1964 Section 1250 provisions, recapture is reduced by 1 percent for every month the property is held over 20 months. In this example recapture is reduced 40 percent, to 60 percent of the excess of the accelerated over the straight line depreciation because the property was held for 60 months.

[3]$26,610 (Total accelerated depreciation) - $3,966 (Accelerated depreciation taxed at ordinary income tax rates).

[4]For individual in the 60 percent income tax bracket and with a capital gains tax of 25 percent.

[5]For individual in 75 percent income tax bracket and with a capital gains tax of 25 percent.

[6]Aggregate 5-year tax saving (see Exhibit A-1-2) - Total taxes paid.

Exhibit A-1-4

TAX BENEFIT OF RAPID DEPRECIATION UNDER
1969 TAX PROVISIONS

Cost of property: $120,000 ($20,000 land and $100,000 depreciable building)
Sale of property: 5 years after acquisition, sold for $120,000
Useful life: 25 years, no salvage value
Depreciation schedule: 125%[1] declining balance

Year	Yearly Depreciation	Yearly Tax Saving[2] for Individual in 60% Income Tax Bracket	75% Income Tax Bracket
1	$5,000	$3,000	$3,750
2	4,750	2,850	3,563
3	4,513	2,708	3,385
4	4,287	2,572	3,215
5	4,073	2,444	3,055
Total	22,623	13,574	16,968

[1]Maximum accelerated depreciation schedule allowed for used property under the 1969 Tax Act.

[2]Before capital gains tax and Section 1250 recapture.

The 1969 tax provisions have significantly reduced the tax advantage of purchasing and rapidly depreciating real estate. Using our example of a $120,000 property that is rapidly depreciated and sold after five years, the tax saving of an owner in the 60 percent income tax bracket would be reduced to $5,000--more than one-third less than the $7,925 tax saving under the 1964 provisions. The aggregate tax saving of an individual in the 75 percent income tax bracket would also be reduced significantly from $11,332 under the 1964 tax act provisions to $8,001 under the 1969 tax act. (See Exhibits A-1-3 and A-1-5).

Do the Federal Tax Provisions Influence Rehabilitation?

Even before the 1964 and 1969 depreciation and recapture provisions were enacted, some real estate economists and urbanologists questioned whether federal tax policies had any significant impact upon housing and rehabilitation investment decisions. In 1960, Walter Blum and Allison Dunham of the University of Chicago stated that the income tax depreciation and capital gains provisions have always been rather neutral with regard to encouraging or discouraging owners to rehabilitate their properties.[7] Blum and Dunham maintained that other factors relating to the demand for upgraded housing were much more significant in influencing property owners whether or not to upgrade their parcels.

The Sporn-Hodge-Hauser thesis that federal depreciation policies have appreciably inhibited rehabilitation is open to question because the lure of rapid depreciation is significant only for high income owners, to whom depreciation "spillover" is important. If a $120,000 property were rapidly depreciated and sold after five years by an owner in the 30 percent income tax bracket, his tax saving would be only $1,133 (see Exhibits A-1-6 and A-1-7.) An individual in the 40 percent income tax bracket would have a larger tax saving of $3,397 but it is doubtful whether even this potential tax gain on a $120,000 property would prompt him to sell his property after a short term of ownership and to purchase and rapidly depreciate another property. Even if the Sporn-Hodge-Hauser thesis is valid, the federal tax policies influence only the minority of property owners in high income tax brackets.

Effect of Depreciation: Supposed and Actual Market Behavior

Furthermore the Sporn-Hodge-Hauser thesis assumes that a property owner, to maximize his tax saving, will sell his parcel as soon as the depreciation writeoff begins to decrease. Such a rationale is not supported by empirical market studies.

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[7]Walter Blum and Allison Dunham, "Income Tax Law and Slums: Some Further Reflections" Columbia Law Review, Vol. 60, No. 3, 1960, p. 451.

Exhibit A-1-5

OPERATION OF THE 1969 RECAPTURE PROVISIONS

Selling price of property[1]		$120,000
Original cost of property[1]	$120,000	
Less aggregate 5-year depreciation at 125% percent declining balance schedule	22,623	
	$ 97,377	
Adjusted tax basis		$ 97,377
Taxable gain		$ 22,623[2]
Recapture Calculation		
5-year aggregate depreciation under 125% declining balance schedule		$22,623
5-year aggregate straight line depreciation		-20,000
Excess of accelerated depreciation over straight-line depreciation		$ 2,623
Recapture percentage (100 percent)		x 1.00[3]
Portion of accelerated depreciation taxed at ordinary income		$ 2,623
Portion of accelerated depreciated taxed as long term capital gain		$20,000[4]
TAXES PAID AND TAX SAVING		
Total taxes paid $1,574 ($2,623 x .60) + $7,000 ($20,000 x .35)[5]		$8,574
or $1.967 ($2.623 x .75) + $7,000 ($20,000 x .35)[6]		$8,967
Aggregate tax saving for individual in 60% income tax bracket ($13,574 - $8,574)[7]		$5,000
75% income tax bracket ($16,968 - $8,967)[7]		$8,001

[1]See Exhibit A-1-4.

[2]$120,000 (selling cost of property) - $97,377 (adjusted tax basis.)

[3]Under the 1969 Tax Act there is 100 percent recapture for the first 100 months after a property is acquired. Here the property was held 60 months and consequently here there is 100 percent recapture.

[4]$22,623 (total accelerated depreciation) - $2,623 (accelerated depreciation taxed at prevailing income tax rates).

[5]For individuals in the 60 percent income tax bracket and with a capital gains tax rate of 35 percent. Under the 1969 Tax Act after 1971 the maximum tax rate for long term capital gains is 35 percent. See Ritter and Sunley "Real Estate and Tax Reform" p. 43.

[6]For individuals in the 75 percent income tax bracket and with a capital gains tax rate of 35 percent.

[7]Aggregate 5-year tax saving (see Exhibit A-1-4) - Total taxes paid.

Exhibit A-1-6

TAX BENEFIT OF RAPID DEPRECIATION FOR INDIVIDUALS IN 30 AND 40 PERCENT INCOME TAX BRACKETS

Cost of property: $120,000 ($20,000 land and $100,000 depreciable building)
Sale of property: 5 years after acquisition, sold for $120,000
Useful life: 25 years
Depreciation schedule: 150 percent declining balance

Year	Yearly Depreciation (See Exhibit A-1-1)	Yearly Tax Saving[1] for Individual in	
		30 percent income tax bracket	40 percent income tax bracket
1	$6,000	$1,800	$2,400
2	5,640	1,692	2,256
3	5,302	1,591	2,121
4	4,983	1,495	1,993
5	4,685	1,406	1,874
Total	26,610	7,984	10,644

[1] Before capital gains tax and Section 1250 recapture.

Exhibit A-1-7

AGGREGATE TAX SAVINGS
OF RAPID DEPRECIATION FOR INDIVIDUALS IN 30 AND 40 PERCENT
INCOME TAX BRACKETS

Taxable gain[1]	$26,610
Recapture Calculation	
5 year aggregate depreciation under 150 percent declining balance schedule	$26,610
5 year total straight line depreciation	$20,000
Excess of accelerated depreciation over straight line depreciation	$ 6,610
Recapture percentage	x .60[2]
Portion of accelerated depreciation taxed as ordinary income	$ 3,966
Portion of accelerated depreciation taxed as long term capital gain	$22,644[2]
TAXES PAID AND TAX SAVING	
Total tax paid $1,190 ($3,966 x .30) + $5,661 ($22.644 x .25)[3]	$ 6,851
or	
$1,586 ($3,966 x .40) + $5,661 ($22,644 x .25)[4]	$ 7,247
Aggregate Tax Saving for Individual in 30 percent income tax bracket ($7,984 - $6,851)[5]	$ 1,133
40 percent income tax bracket ($10,644 - $7,247)[5]	$ 3,397

[1] See Exhibit A-1-2.

[2] See Exhibit A-1-3.

[3] For individual in 30 percent income tax bracket and 25 percent capital gains rate.

[4] For individual in 40 percent income tax bracket and 25 percent capital gains tax rate.

[5] Total 5 year tax saving (see Exhibit A-1-6) - Total taxes paid.

The Leo Grebler study of 958 parcles on New York City's Lower East Side indicated that between 1900 and 1949 there was an average of only 4.5 changes in ownership per parcel and the average period of ownership was 11 years.[8] Grebler concluded that "Taking the half century as a whole, property turnover has been relatively slow and duration of ownership relatively long compared to widespread impressions of market characteristics of slum areas."[9]

The Chester Rapkin study covering transactions on New York City's West Side between 1938 and 1955 indicated a similarly long period of ownership--ten years.[10] Arthur Sporn's study of turnover rate in slum properties in Milwaukee between 1949 and 1959 also revealed a relatively long average ownership period of 13 years.[11]

And more recent studies have paralleled the earlier findings. Based on his study of Newark, George Sternlieb concluded that while certain properties frequently changed ownership the overall rate of turnover has popularly been overestimated.[12] In a 1969 study of 65 parcels in Cincinnati, G. David Schiering noted that the average period of slum tenement ownership was ten years.[13] In only 35 percent of the parcels was there an ownership period of less than five years. And the typical absentee landlord in the area of the Washington Park rehabilitation project owned his property at least 10 years.[14]

All of the foregoing studies of market behavior in slum properties tend to refute the theory that federal tax policies have encouraged rapid turnover in tenement ownership. We therefore question the popularly held notion that these policies have inhibited rehabilitation.

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[8]Leo Grebler, Housing Market Behavior in a Declining Area (New York: 1952).

[9]Ibid., P. 75.

[10]Chester Rapkin, The Real Estate Market in an Urban Renewal Area (New York: 1959), p. 21.

[11]Arthur Sporn, "Empirical Studies in the Economics of Slum Ownership," Land Economics, Vol. 36, 1960, p. 27.

[12]Sternlieb, The Tenement Landlord, p. 101.

[13]G. David Schiering, "Depreciation Deduction on Used Residential Housing, Turnover Rates in Slum Housing Ownership and Tax Reform Act of 1969," University of Cincinnati Law Review, Vol. 38, No. 3, Summer 1969, p. 550.

[14]McFarland and Vivret, Residential Rehabilitation, p. 106.

Appendix II

MODEL TAX SALE AND FORECLOSURE PROCEDURES

Partial text of National Municipal League's recommendations for a model tax sale and foreclosure law[1].

ARTICLE VII

COLLECTION OF DELINQUENT TAXES BY SALE OF REAL PROPERTY

Section 21. Sale of real property for delinquent taxes. On the October first following the end of the fiscal year in which any outstanding municipal lien on real property shall have attached, the collector shall enforce all municipal liens accruing prior to such October first by sale of the property as set forth in the following sections . . .

Section 27. Sale at auction. Sale shall be at public auction for the amount of the municipal liens to the person who will purchase the property subject to redemption at the lowest rate of interest. The purchaser shall be entitled to a semiannual payment of the interest stipulated at the sale and to prompt payment when due of all subsequent taxes and other municipal charges which by law may become a lien upon the property. The failure of the owner to comply with these requirements shall give rise to an immediate right in the purchaser to foreclose the right of redemption . . .

Section 31. Certificate of sale. The tax collector immediately after the conclusion of the sale shall deliver to the purchaser a certificate of sale . . .

Section 33. Certificate of sale as evidence. The certificate of sale shall be presumptive evidence in all courts in all proceedings by and against the purchaser, his representatives, heirs, and assigns, of the truth of the statements therein, of the title of the purchaser to the property therein described, and the regularity and validity of all proceedings had in reference to the taxes and other municipal charges for the non-payment of which the property was sold and to the sale thereof . . .

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[1]See Report of the Committee on a Model Tax Collection Law of the National Municipal League, National Municipal Review, May 1935, pp. 298-305.

ARTICLE VIII

REDEMPTION

Section 34. Right of redemption. The owner, mortgagee, occupant, or other person having an interest in property sold for municipal liens may redeem it at any time within one year from the date of sale, or at any time thereafter until the right to redeem has been foreclosed in one of the manners provided by law, by paying to the collector for the use of the purchaser, his heirs or assigns, the amount required for redemption . . .

Section 35. Amount required to redeem. The amount required for redemption shall be the amount stated in the certificate of sale with interest from the date of sale to the date of redemption at the rate of redemption for which the property was sold, the expenses incurred by the purchaser . . .

ARTICLE IX

FORECLOSURE BY PROCEEDINGS IN PERSONAM

Section 39. Action to foreclose right of redemption. The holder of any certificate of sale, his heirs or assigns, in addition to other remedies provided by law, may at any time after the expiration of one year from the date of sale, whether notice to redeem has been given or not, or upon default in the payment of interest or taxes or other municipal charges which may become a lien upon the property accruing subsequent to the sale, bring an action to foreclose the right of redemption. The right to redeem shall nevertheless continue until barred by the court . . .

Section 41. Jurisdiction of court. The court before which the action is brought shall have the same jurisdiction as in the case of mortgage foreclosures and its final judgment shall give the holder of the certificate of sale title in fee simple, barring all encumbrances except municipal liens accruing subsequent to those for which the property was sold . . .

ARTICLE X

FORECLOSURE BY PROCEEDINGS IN REM

Section 44. Alternative procedure in rem. In addition and as an alternative to foreclosure by proceedings in personam the holder of any certificate of sale may proceed in rem to foreclose the right of redemption by describing the defendants (in lieu of naming them) in the summons and other papers. (The summonses to be used were then described) . . .

Section 46. Order for service of summons by publication: contents. In any such action where the plaintiff elects to proceed *in rem* the plaintiff shall be entitled to an order for the service of the *summons by publication*. (Service by publication was the major difference between the *in personam* and *in rem* procedures recommended by the National Municipal League. For other differences between these two procedures see Roger J. Traynor, "Legislation," *California Law Review* vol. 24, 1935-36, pp. 98-107 and Henry Brandis, Jr., "Tax Sales and Foreclosures under the Model Tax Foreclosure Law," *Law and Contemporary Problems* vol. 3, 1936, pp. 406-415) . . .

Partial text of the model tax foreclosure law recommended by Walter Fairchild[2].

PROPOSED BILL FOR THE ENFORCEMENT OF COLLECTION OF TAXES BY THE SALE OF LANDS

150. When lands to be sold for unpaid taxes.

It shall be the duty of the county treasurer to sell any lands on which any tax charged remains unpaid for a period of one year after February first following the year in which the tax was levied, in the manner hereinafter provided . . .

151. Petition to the supreme court.

The county treasurer shall cause a petition to be made to the supreme court, special term, title part, in the county where the property is situated, for a judgment of sale directing such real estate to be sold at public auction at such time, place, and on such terms as may be specified by the court in the judgment. The proceedings upon such petition shall have the effect of proceedings *in rem* against the land, and the final orders shall have the effect of final judgment in an action and shall operate directly on the land and vest and establish title thereto . . .

155. Notice to be published, mailed and posted.

The county treasurer shall cause a notice to be published in a newspaper published in such county . . . which notice shall contain a short description of the property, with its block and tax lot number and the unpaid taxes to satisfy the sale of the property bought, and the time and place at which the petition shall be heard which shall be not less than twenty days nor more than sixty days after the date of the publication . . .

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[2]See Walter Fairchild, "Tax Titles in New York State," *Brooklyn Law Review*, Vol. 8, 1938-1939, pp. 73-80.

161. Sale by county treasurer upon the entering of the order and judgment.

The county treasurer shall forthwith issue a notice specifying the terms of sale and the time when and the place where the property shall be sold, which shall be not less than thirty days nor more than sixty days after the entering of the judgment and send a copy of such notice to each person who has appeared in the proceeding, as set forth in the final judgment, by registered mail demanding a personally signed return receipt card. At the time and place specified in the notice the county treasurer shall sell the said property at public auction to the highest bidder . . . Upon the closing of the title and the payment of the balance of the amount bid, the county treasurer shall deliver to the purchaser a deed of such premises which shall vest in the grantee named therein the title in fee simple to said premises free and clear of all encumbrances of any kind or nature subject only to subsequent unpaid taxes which may be specified in the judgment of sale . . .

163. Right to redeem.

The owner of property or any person interested shall have the right to redeem the property from the sale by paying at any time before the sale all unpaid taxes together with penalties and interest on the same and together with the cost of the proceeding incurred up to the time of redemption. In such case the person so redeeming may elect to have continued the proceeding for the registration of the title pursuant to the final order and judgment . . .

Appendix III

CALCULATING THE FEDERAL COST OF SECTION 167(K) OF THE 1969 TAX ACT

This appendix examines how to calculate federal cost of Section 167(K) of the 1969 Tax Act, which allowed investors in moderate income rehabilitation to rapidly depreciate their investment.

One must first project the dollar value of the qualified investment, that is, the investment in rehabilitation that can be depreciated under Section 167(K). The depreciation of this qualified investment is first calculated according to the five-year depreciation write off provision of Section 167(K) and then according to a "normal" or less rapid depreciation such as a double-declining balance schedule with a 20-year useful life. The federal revenue loss, or cost, is equal to the difference between the depreciation under the 167(K) program and the "normal" depreciation multiplied by the income tax bracket of the investors who made the qualified investment.

Sunley's Calculations of the Federal Cost of Section 167(K)

Emil Sunley Jr. calculated[1] that the qualified investment in rehabilitation would be 500 million dollars in 1970 and would increase to 1.625 billion dollars by 1979. Sunley based his calculations on the 1969 HUD projections of future subsidized rehabilitation activity which totaled 2,000,000 units from 1969 to 1978 (See Exhibit 1-5) and he assumed that one-half of these rehabilitated units would be rental units with a rehabilitation cost of $10,000 per unit. Using the HUD estimate of 100,000 units to be rehabilitated in fiscal 1970, Sunley calculated that the qualified investment in rehabilitation would total $500,000,000 $\left(\frac{100,000}{2} \times \$10,000\right)$.

Having derived the qualified investment in rehabilitation, he calculated the increase in depreciation of this qualified investment under the 167(K) provisions as compared to a "normal" depreciation schedule, e.g., double-declining balance with a 20 year life. Using the example of the 1970 $500,000,000 qualified investment, $50,000,000 can be depreciated according to the Section 167(K) provisions in 1970 as compared to a $25,000,000 depreciation in the same year under a "normal" depreciation (See Exhibit A-3-1). The increase in the annual depreciation of Section 167(K) for 1971 and subsequent

[1] Sunley, "Tax Incentive for the Rehabilitation of Housing".

Exhibit A-3-1

1970-78 Annual Depreciation Allowance: Comparison of Section 167(K) and Double Declining Balance Depreciation With a 20 Year Useful Life, Assuming a 1970 $500,000,000 Qualified Investment (in thousands of dollars)

(1) Fiscal Year	(2) Depreciation under Section 167(K)[1]	(3) Depreciation under "Normal" (Double Declining Balance) Depreciation Schedule	(4) Increase in Annual Depreciation (2) - (3)
1970	$ 50,000	$25,000	$25,000
1971	100,000	47,500	52,500
1972	100,000	42,750	57,250
1973	100,000	38,475	61,525
1974	100,000	34,630	65,370
1975	50,000	31,165	18,835
1976	0	28,050	-28,050
1977	0	25,245	-25,245
1978	0	22,720	-22,720
1979	0	20,445	-20,445

Source: Adopted from Emil Sunely Jr., "Tax Incentive for the Rehabilitation of Housing," The Appraisal Journal, July 1971, p. 382.

[1]Consistent with the half-year convention, depreciation taken during the first year is discounted one-half year later.

years is calculated in the same manner[2] and according to Sunley by 1979 the total increase in depreciation under Section 167(K) would be 655.8 million dollars (See Exhibit 5-1).

Sunley assumes further that, on the average, the taxpayers who deducted the additional depreciation under Section 167(K) were in the 50 percent tax bracket. Consequently the lost federal tax revenue, or the cost of Section 167(K), is equal to the increase in the annual depreciation of Section 167(K) multiplied by .50. According to Sunley, then, the federal cost of Section 167(K) in 1970 is $12,500,000 ($25,000,000 X .50) and the federal cost of Section 167(K) in 1971 and subsequent years is calculated in a similar fashion (See Exhibit 5-3).

Sunley's Calculations

Sunley's calculations of the revenue losses under Section 167(K) are based on 1969 HUD projections of future subsidized rehabilitation volume. In 1970, however, HUD revised these projections downward (See Exhibit 1-5).

Sunley also assumed a $10,000-per-unit construction cost for subsidized rental rehabilitated units in the 1970-79 period. The Second Annual Report on National Housing Goals however, has projected a continuous increase in the rehabilitation cost of subsidized rehabilitated rental units from $10,100 in 1970 to $13,550 in 1979 (See Exhibit A-3-2).

An Alternative to Sunley's Calculations

If we calculate the qualified investment in rehabilitation according to the 1970 HUD projections[3] and according to the per-unit construction cost estimated by the Second Annual Report on National Housing Goals, we arrive at a considerably smaller investment, resulting in a much lower federal cost estimate of Section 167(K).

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[2]After 1970, the total increase in depreciation is cumulative. Thus the total increase in depreciation in 1971 consists of not only the first year's increase in depreciation of the 1971 qualified investment but also the second year's increase in depreciation of the 1970 qualified investment (See Exhibit 5-1).

[3]Actual rehabilitation volume has fallen short of the 1970 HUD projections. The 1970 projections have been used, however, to calculate the cost of Section 167(K) because they are the most recent projections of the volume of subsidized rehabilitation until 1978.

Exhibit A-3-2

PROJECTED PER-UNIT CONSTRUCTION COST FOR REHABILITATED RENTAL HOUSING (SECTION 236)

Fiscal Year	Projected Per-unit Construction Cost of Rehabilitated Rental Housing (236 Program)
1970	$10,100
1971	10,710
1972	11,230
1973	11,600
1974	11,890
1975	12,190
1976	14,490
1977	12,800
1978	13,120
1979	13,550[1]

[1] The Second Annual Report on National Housing Goals did not project the 1979 cost of rehabilitated section 236 housing units. The 13,550 figure was derived by increasing the 1978 projected per unit cost by 3.3 percent - the average annual cost increase in rehabilitated 236 housing in the 1970-1978 period.

Source: United States, Congress House, Second Annual Report on National Housing Goals, 91st Congress, 1st. Session, p. 67.

According to the revised HUD projections in 1970, the subsidized rehabilitation volume would be 50,000 units with a $10,100 per-unit construction cost, as estimated by the Second Annual Report on Housing Goals. Consequently, the qualified investment in rehabilitation would be $252,500,000 $\left(\frac{50,000}{2} \times \$10,000\right)$. The excess depreciation of this qualified investment under the Section 167(K) provisions as compared to "normal" depreciation would be $12,625,000 (see Exhibit A-3-3). And the 1970 federal cost of Section 167(K) would total $6,300,000 ($12,625,000 x .50 rounded to the nearest $100,000)--about half of Sunley's estimate of the 1970 federal cost of section 167(K) (see Exhibit 5-4).

The federal cost of Section 167(K) in 1971 and subsequent years is calculated in a similar fashion and by 1979 would total 200.7 million dollars--over $100 million dollars less than Sunley's cost projection (see Exhibits 5-3 and 5-4). As noted in Chapter Five, however, even the lower estimate of the cost of section 167(K) still entails a considerable federal cost.

Exhibit A-3-3

1970-78 Annual Depreciation Allowance: Comparison of Section 167(K) and Double-Declining Balance Depreciation with a 20-year Useful life, Assuming a 1970 $252,500,000 Qualified Investment (in thousands of dollars)

(1) Fiscal Year	(2) Depreciation under Section 167(K)	(3) Depreciation under "normal" (Double Declining Balance) Depreciation Schedule	(4) Increase in Annual Depreciation (2)-(3)
1970	$25,250	$12,625	$12,625
1971	50,500	23,988	26,512
1972	50,500	21,589	28,911
1973	50,500	19,430	31,070
1974	50,500	17,488	33,012
1975	25,250	15,738	9,512
1976	0	14,165	-14,165
1977	0	12,749	-12,749
1978	0	11,474	-11,474
1979	0	10,325	-10,325

Source: Adopted from Emil Sunely, Jr., "Tax Incentive for the Rehabilitation of Housing," The Appraisal Journal, July 1971, p. 382.

Appendix IV

MICRO STUDY: METHODOLOGICAL NOTES AND INTERVIEW

Equalized Property Valuation

In order to compare the equalized or "true value" property tax base for Camden and the State of New Jersey the net valuation on which county taxes are apportioned (column 11 in the County Abstract of Ratables) was utilized. The net valuation on which county taxes are apportioned equals the net valuation taxable (column 6 in the County Abstract of Ratables) plus the true value of class II railroad property (column 9 in the County Abstract of Ratables) minus the sum of the amounts deducted under R.S. 54:3-17 to 54:2-19 (column 10a of the County Abstract of Ratables) plus the amounts added under R.S. 54:3-17 to R.S. 54:3-19 and N.J.S.A. 54:11d-7 (column 10b of the County Abstract of Ratables).

Equalized Tax Rates

The equalized property tax rates for New Jersey and for Camden for 1960-63 were derived by dividing the total tax levy, (column 12d of the County Abstract of Ratables) by the net valuation on which county taxes are apportioned. (See Exhibit A-4-1) The equalized property tax rates for 1964-71 were derived by dividing the total on which tax rate is computed (column 12 of the County Abstract of Ratables) by the net valuation on which county taxes are apportioned. The total on which the tax rate is computed is not listed before 1964.

CHIP Homeowners Interviewed

At the time of the interview 344 CHIP houses had been sold. Fifty CHIP homeowners refused to be interviewed, or were not home, and 38 answered only a few of the questions that were asked.

The CHIP questionnaire that was utilized is included on pages 211-224.

Exhibit A-4-1

EQUALIZED PROPERTY TAX RATES, NEW JERSEY AND CAMDEN 1960-1971

	State of New Jersey		Equalized Tax Rate	Camden, New Jersey		Equalized Tax Rate
1960	$ 834,652,780 / $28,634,245,237	=	.0291	$ 14,169,558 / $322,360,875	=	.0440
1961	889,718,942 / 30,356,448,451	=	.0293	15,413,478 / 314,192,037	=	.0491
1962	971,174,356 / 32,033,275,285	=	.0303	14,233,976 / 316,044,682	=	.0450
1963	1,035,591,144 / 34,429,765,381	=	.0301	14,544,104 / 332,735,511	=	.0437
1964	1,165,436,549 / 37,172,501,828	=	.0314	16,122,897 / 336,173,093	=	.0480
1965	1,233,814,955 / 39,515,827,174	=	.0312	16,155,120 / 358,297,028	=	.0451
1966	1,272,414,387 / 42,066,529,873	=	.0302	14,808,293 / 332,833,127	=	.0445
1967	1,444,651,088 / 45,106,331,284	=	.0320	16,132,424 / 329,289,874	=	.0490
1968	1,553,020,546 / 47,731,563,484	=	.0325	16,563,352 / 329,618,681	=	.0503
1969	1,710,531,691 / 51,228,358,662	=	.0334	18,314,065 / 344,044,389	=	.0532
1970	1.967,618,070 / 55,141,945,583	=	.0357	22,055,472 / 354,764,497	=	.0622
1971	2,188,274,828 / 60,642,969,747	=	.0361	21,935,661 / 362,627,814	=	.0605

Numerators of fractions equal the total tax levy (1960-63) or the total on which the tax rate is computed (1964-1971). Denominators of fractions equal the net valuation on which county taxes are apportioned.

Source: State of New Jersey, Department of the Treasury Annual Report of the Division of Taxation in the Department of the Treasury for indicated years.

CHIP Homeowner Questionaire

1. Interview Number_____

2. Serial Number of Housing Unit_____

3. Identification Number of Interviewer

4. Address_____

5. Camden: North_____ South_____

6. How did you find out about CHIP?

   _____ 1. Relative

   _____ 2. Friend

   _____ 3. Newspaper

   _____ 4. Radio

   _____ 5. Welfare department

   _____ 6. Office of Economic Opportunity

   _____ 7. CHIP employee

   _____ 8. Other (specify)

   _____ 9. No response/don't know

7. If from friend or relative, do they own a CHIP house?

   _____ 1. Yes

   _____ 2. No

   _____ 3. No response/don't know

8. How long have you lived in a CHIP house?

   _____ 1. Less than 1 year

   _____ 2. 1 - 2 years

   _____ 3. 3 - 4 years

   _____ 4. 4 or more years

9. Before buying a CHIP house, did you

_____ 1. Rent (private housing)

_____ 2. Rent (public housing)

_____ 3. Own house

_____ 4. Live with family or friends

_____ 5. Group quarters

_____ 6. Other

_____ 7. No response/don't know

10. Have you ever lived in public housing?

_____ 1. Yes

_____ 2. No

11. Comparing what you spend on housing now with what you were spending on housing at your previous residence, would you say that you are spending more, a little more, a little less, much less, or the same?

_____ 1. Much more

_____ 2. Little more

_____ 3. Little less

_____ 4. Much less

_____ 5. Same

_____ 6. No response/don't know

12. Why did you move from your previous apartment or house?

_____ 1. Previous dwelling demolished

_____ 2. Inadequate landlord service or maintenance

_____ 3. Previous rent or mortgage payment too high

_____ 4. Needed larger quarters

_____ 5. Wanted to own house

_____ 6. Other

_____ 7. No response/don't know

13. Why did you buy a CHIP house?

14. Since you bought your CHIP house has the level of maintenance by the other homeowners on the block improved?

_____ 1. Improved

_____ 2. Remained the same

_____ 3. Declined

_____ 4. No response/don't know

15. Do you think the CHIP program has had any effect on making North or South Camden a better place to live?

16. What changes if any would you like to see in the CHIP Program?

17. Have you made any improvements in your CHIP house?

_____ 1. Yes

_____ 2. No

18. If so, what?

19. Have you had any major repair or maintenance problems?

_____ 1. Yes

_____ 2. No

20. If yes, what?

21. Have you had (or would you have) difficulties in paying for these repairs or maintenance?

22. How can CHIP make a better house?

23. How does your family feel about living in a CHIP house?

24. Would you recommend a friend to buy a CHIP house?

_____ 1. Yes

_____ 2. No

25. Why or why not?

26. What is your average monthly cost for:

$_____ 1. Payment to mortgage company

$_____ 2. Electricity

$_____ 3. Gas

$_____ 4. Repairs and maintenance

$_____ 5. Other expenses (explain) _____

_____

6. No response/don't know

$_____ TOTAL COSTS

27. There are many services Camden provides. How would you rate the following:

	Very Good	Good	Neutral	Poor	Very Poor
1. Public Education	___	___	___	___	___
2. Police	___	___	___	___	___
3. Day Care	___	___	___	___	___
4. Recreation	___	___	___	___	___
5. Public transportation	___	___	___	___	___
6. Sanitation and street cleaning	___	___	___	___	___
7. Health	___	___	___	___	___
8. Welfare	___	___	___	___	___

9. Other (comments) _____

_____

28. From your own point of view what is the biggest problem facing Camden?

29. Other problems

30. Looking to the future - let's say 5 years from now - will this problem change for the:

_____ 1. Better

_____ 2. Worse

_____ 3. Same

_____ 4. No response/don't know

31. Has the Head of the Household been employed at any time within the last year?

_____ 1. Yes

_____ 2. No

32. If Yes, check one of the following:

_____ 1. Employed full-time

_____ 2. Employed part-time

_____ 3. Other (explain _____

_____

33. What type of employment do (did) you have?

_____ 1. Professional, technical

_____ 2. Manager, official, proprietor

_____ 3. Clerical

_____ 4. Sales worker

_____ 5. Craftsman, foreman and kindred

_____ 6. Operator and kindred

_____ 7. Service worker including private household

_____ 8. Laborer excluding farmer and miner

34. Where do (did) you work?

_____ 1. Camden

_____ 2. Outside Camden

35. If the answer to question 31 is No, check one of the following:

_____ 1. Business discontinued

_____ 2. Laid off

_____ 3. Moved away from place of employment

_____ 4. Plant relocation

_____ 5. In school

_____ 6. Acute illness/accident

_____ 7. Chronic illness/long-term disability

_____ 8. Needed at home (child care)

_____ 9. Retired

_____ 10. Other (explain) _____

36. What type of assistance are you receiving from Welfare?

_____ 1. Aid to Dependent Children (ADC)

_____ 2. Old Age Assistance (OAA)

_____ 3. Aid to Disabled (AD)

_____ 4. Aid to Blind (AB)

_____ 5. Aid to Dependent Children of Unemployed Parents (ADC)

_____ 6. General Assistance (GA)

_____ 7. Veterans Benefits

_____ 8. Other (explain) _____

_____

_____ 9. No response/don't know

37. Are you active with any Welfare Rights groups?

_____ 1. Yes

_____ 2. No

38. If yes, how often do you attend meetings of this organization?

39. How much money does the family have to live on per month?

	1971
Employment income	$ _____
Welfare grants	$ _____
Savings	$_____
Support contribution	$ _____
Other (explain)	$ _____
TOTAL	$ _____

40. What state were you born in?

_____ 1. New Jersey

_____ 2. Pennsylvania

_____ 3. Puerto Rico

_____ 4. Other northern or western states

_____ 5. Southern state

_____ 6. Out of the country

41. How long have you lived in Camden?

_____ 1. Less than 1 year

_____ 2. 1 - 2 years

_____ 3. 3 - 4 years

_____ 4. 5 - 9 years

_____ 5. 10 - 14 years

_____ 6. 15 years or over

_____ 7. Always lived here (skip to Question No. 46)

42. What were your reasons for moving to Camden?

43. What type of place did you live in just before coming to Camden?

_____ 1. Large city

_____ 2. Small city

_____ 3. Small town

_____ 4. Rural

44. What state did you live in just before coming to Camden?

_____ 1. Pennsylvania

_____ 2. New York

_____ 3. Puerto Rico

_____ 4. Other northern or western states

_____ 5. Southern state

_____ 6. Out of country (besides Puerto Rico)

45. Altogether, during your lifetime, how many different cities or towns have you lived in?

_____ 1. One

_____ 2. Two

_____ 3. Three

_____ 4. Four

_____ 5. Five

_____ 6. Six

_____ 7. Seven

_____ 8. Eight or more

_____ 9. No response/don't know

46. Do you intend to move in the next 5 years?

_____ 1. Definitely will move

_____ 2. Probably will move

_____ 3. Probably will not move

_____ 4. Definitely will not move

_____ 5. No response/don't know

Why?

47. If you have plans for the future, in about how long do you hope they will be achieved? (preferences?)

_____ 1. One month or less

_____ 2. Two to six months

_____ 3. Six months to one year

_____ 4. One to three years

_____ 5. Four years or more

48. Do you feel the achievement of these plans will be worth the effort on your part? (expectations?)

_____ 1. Well worth it

_____ 2. Worth it

_____ 3. Undecided

_____ 4. Not worth it

_____ 5. A waste of time

49. There is an old saying, "A bird in the hand is worth two in the bush." To what extent do you agree with this statement?

_____ 1. Strongly agree

_____ 2. Mildly agree

_____ 3. Undecided

_____ 4. Mildly disagree

_____ 5. Strongly disagree

50. Here is a picture of a ladder (Flash card #1). Suppose we say that the top of the ladder (pointing) represents the best possible life for you and the bottom (pointing) represents the worst possible life for you.

Where on the ladder (moving finger rapidly up and down ladder) do you feel you personally stand at the present time?

_____ Step number

51. Where on the ladder would you say you stood five years ago?

_____ Step number

52. And where do you think you will be on the ladder five years from now?

_____ Step number

53. Now, what are your wishes and hopes for the future of our country? If you picture the United States in the best possible light, how would things look, let us say 10 years from now?

54. And what about your fears and worries for the future of our country? If you picture the United States in the worst possible light, how would things look in about ten years?

55. Now, looking at the ladder again (Flash card #1) suppose your greatest hopes for the United States are at the top (pointing); your worst fears at the bottom (pointing) where would you put the United States on the ladder (moving finger rapidly up and down ladder) at the present time?

_____ Step Number

56. Where did the United States stand 5 years ago?

_____ Step Number

57. Just as your best guess, where do you think the United States will be on the ladder 5 years from now?

_____ Step Number

58. Who is the Head of this family (Enter respondent's name on Line 1 of table)

59. OR (Enter this person's name on Line 1)
Who are the other family members living in this house (Enter names below Line 1 of table and complete columns about each one.)

60. D Does anyone else besides your immediate family live in this house (Enter names in remaining spaces.)

						IF 16 YEARS OR OVER		
NAME (Last Name First)	RELATIONSHIP TO HOUSEHOLD HEAD	HOUSE-HOLD Member	SEX	AGE LAST BIRTHDAY	COLOR OR ETHNIC GROUP	MARITAL STATUS	EDUCATION COMPLETED	IN SCHOOL NOW
List all persons staying here and all persons who usually live here who are absent. Be sure to INCLUDE infants under 1 year of age.	Examples: head, wife, son, daughter-in-law, partner, lodger, lodger"s wife, etc.	Circle Y for Yes Circle N for No	Circle M (Male) Circle F (Female)	ENTER Year If under 1 year enter "0"	White Nego Puerto Rican Cuban Other (specify)	Is . . Now Married Widowed Divorced Separated Single	Enter Code from below.	Circle Y for Yes Circle N for No
1.		Y N	M F					Y N
2.		Y N	M F					Y N
3.		Y N	M F					Y N
4.		Y N	M F					Y N
5.		Y N	M F					Y N
6.		Y N	M F					Y N
7.		Y N	M F					Y N
8.		Y N	M F					Y N

FOR INTERVIEWER

61. What is your evaluation of the condition of the CHIP house you visited?

1. Excellent condition _____

2. Good condition _____

3. Fair condition _____

4. Poor condition _____

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